

Defense Finance and Accounting Service

Working Capital Fund

Table of Contents

Operations Overview.....	1
Operations Principal Statements	29
Footnotes to the Operations Principal Statements	56
Supplemental Financial and Management Information.....	75

***DEFENSE FINANCE
AND
ACCOUNTING SERVICE***

***WORKING CAPITAL
FUND***

OPERATIONS

OVERVIEW

**DEFENSE FINANCE AND ACCOUNTING SERVICE
CONSOLIDATED OPERATIONS
DEFENSE WORKING CAPITAL FUND
OVERVIEW OF THE REPORTING ENTITY**

These financial statements report on the financial position and results of operations of the Defense Finance and Accounting Service (DFAS) Financial Operations and Information Systems business areas of the Defense Working Capital Fund (DWCF) for FY 1998. They are prepared pursuant to the requirements of the Chief Financial Officers Act of 1990 (CFO) and Department of Defense (DoD) implementing guidance.

The financial statements include all aspects of DFAS commercial operations. They do not include any other appropriated, trust, or revolving funds. The principal statements are prepared from the same sources as are reports used to monitor and control budgetary resources.

Description of the Reporting Entity

DFAS operations consist of two business areas, Financial Operations and Information Systems. These two business areas contribute to the agency's ability to provide effective and efficient finance and accounting services during times of peace and conflict.

When DFAS was established in FY 1991, DoD took a giant step forward in streamlining financial systems. DFAS became the pivotal agent for key financial management reforms. During FY 1992, DFAS Financial Operations capitalized over 16,000 additional finance and accounting personnel at more than 300 locations in the continental United States. A major streamlining milestone was the announcement in May 1994, by the Deputy Secretary of Defense, of the consolidation of finance and accounting operations. Since that announcement, 332 DoD field offices have been closed and their processes consolidated at 19 DFAS Operating Locations, five DFAS Centers, and a Headquarters in the Washington, DC area. The final round of consolidations was completed by the end of FY 1998. This initiative and other savings helped DFAS achieve a reduction in its end strength of 8,000 spaces since FY 1992. With consolidation completed, savings are expected to total \$120 million per year.

The DFAS workforce consists of civilians and military members from the Army, Air Force, Navy, and Marine Corps. The size of the military and civilian workforce employed by DFAS as of September 30, 1998 is:

Military	1,523
Civilian	18,085

DFAS has taken aggressive measures to respond favorably to the DoD manpower requirement to downsize both the military and civilian end strength levels. For the past four years, DFAS has exceeded the OSD mandatory civilian and military reduction goals. Since its inception in January 1991 through September 30, 1998, DFAS has capitalized over 31,000 positions. However by consolidating operations, standardizing systems, and reengineering business processes, DFAS has been able to eliminate over 8,000 positions. DFAS civilian and military end strength are scheduled to decline by 39 percent from the FY 1994 baseline of 26,453 to 16,169 in FY 2003.

The DFAS Financial Services Organization (FSO) functions as a fee-for-service operation under the DWCF Information Systems business area. The FSO provides software development/modernization and systems maintenance support to over 100 Automated Information Systems (AIS). In addition, it provides overall technical support in a number of system-related areas. The primary areas of emphasis are the acquisition, deployment, and support for the DFAS information technology (I/T) infrastructure.

The FSO operates as a single organization with a small headquarters contingent located in Indianapolis and subordinate Financial Systems Activities (FSAs) in Cleveland, Columbus, Pensacola, Indianapolis, Kansas City, and Denver. During FY 1996, the FSO delivered over 2.5 million direct labor hours in accomplishing its software development and maintenance mission.

The DFAS Consolidated Principal Statements consist of both the Financial Operations and the Information Systems Operations results. The consolidated statements have been adjusted to reflect the elimination of intra-departmental transactions between the two entities.

FINANCIAL OPERATIONS

Description of the Reporting Entity

The Financial Operations Activity provides effective and efficient finance and accounting services during times of peace and conflict. Prior to January 1991, the DoD had a decentralized mode of operation. Reflecting that reality, the three military departments and major Defense Agencies have, until recent reforms began, always managed their own budget, finance, and accounting systems. As a result, they developed their own processes and business practices, geared to their particular mission, with little compatibility with other DoD operations. As Defense missions became more complex, and DoD organizations were required to interact more with each other, systems compatibility and lack of standardization took a toll. Rather than redesigning its organization or standardizing its multitude of systems, the Department developed increasingly complex business practices to link its systems.

Such complexity left DoD financial systems prone to error or to demands that could not be achieved by the systems, personnel, or in the time available. No matter how knowledgeable and qualified the people operating the systems were, problems were inevitable. Moreover, there was an inherent inefficiency in having scores of incompatible systems performing virtually

identical functions. In December 1991, DoD created DFAS to assume management responsibility for DoD components' accounting operations and to consolidate those operations into a limited number of locations in order to realize significant savings. With the establishment of DFAS, DoD took a giant step forward in streamlining financial systems. DFAS became DoD's pivotal agent for key financial management reforms.

By streamlining and standardizing DoD's finance and accounting policies, systems, and operations and eliminating redundancies, DFAS has improved finance and accounting operations and reduced costs. DFAS was charged with providing finance and accounting services to the Army, Navy, Air Force, Marine Corps, Defense Logistics Agency (DLA), and the Washington Headquarters Service. Prior to the establishment of DFAS, each military department operated its own finance and accounting network, focused on its own requirements, using its own unique systems. Initially, the focus of the individual DFAS Centers did not change. Centers provided pay and financial management support to a single military department or agency. But as DFAS standardization and consolidation initiatives are implemented, Center missions are expanding and changing to support functions throughout DoD.

Human Resources Initiatives

In 1996, the Human Resources Directorate initiated an HR Regionalization Program. The Personnel Support Organization (PSO), headed by the Deputy Director for Human Resources, was approved in September 1995 as the umbrella organization for all DFAS Human Resources services. Under the PSO are one Regional Service Center (RSC) located in Indianapolis, Indiana, and six Customer Support Units (CSUs) located at the five DFAS Centers and DFAS Headquarters. The RSC officially opened August 7, 1996. The RSC supports the CSUs by performing personnel services that do not require face-to-face contact with customers, such as personnel recordkeeping, system input, and vacancy announcements. The CSUs work directly with customers, advising and assisting DFAS managers and employees on personnel-related issues. Workload was moved from the CSUs to the RSC, which resulted in efficiencies from economy of scale.

Additionally, as part of the Department of Defense regionalization and modernization initiatives, DFAS is partnering with the Defense Contract Audit Agency (DCAA) and the Defense Information Systems Agency (DISA) to perform their regionalized personal services. Servicing of DCAA began in August 1998, and DISA servicing is scheduled for FY 1999.

With the commencement of consolidation of DFAS field activities in 1995, the Responsible Employer Program (REP) was created. The REP greatly reduced the number of involuntary separations throughout DFAS by giving employees options they would otherwise not have had. Before the REP, employees' only option was to register in the Department of Defense Priority Placement Program or accept separation incentives, if offered. The REP allowed employees to remain with DFAS if they were willing to relocate. As a result, 22 percent of the affected employees relocated.

In FY 1995, only 2 percent of those employees affected by the consolidation were separated. However, from 1996 through 1998, due to general government downsizing, there were fewer positions in the local commuting area available for people unwilling to relocate. Still, less than 5 percent have been involuntarily separated. Without REP, this number would have been higher.

Project REFOCUS, a Headquarters Reinvention initiative, relieves managers of most of the administrative chores associated with such needs as staffing their offices and giving awards to their people. This gives them more time to effectively manage their programs. Directorates are serviced by designated specialists who provide advice and assistance in all areas of personnel management. Project REFOCUS provides one-stop personnel service to better serve customers. Managers can request HR assistance by e-mail and no longer need to fill out Standard Form 52s to request personnel actions.

With a smaller work force, relevant training and education become more important. DFAS is currently undertaking a Competency-Based Career Development program; by the end of FY 1998, 14 Career Development Plans have been developed. Plans for the Financial Management Career field were developed first and served as the prototype for the other career fields. The plans provide a road map for civilians to grow, advance, or even change career fields and include professional and technical as well as leadership and management competencies. The plans set up a systematic process to develop DFAS employees from accession to separation through education, rotational assignments, and self-development initiatives. The plans will be accessible through an automated system that will allow DFAS supervisors to manage employees training and development through the use of Individual Development Plans.

The Human Resource Directorate developed and implemented an agency career management system to identify guidelines and processes for the acquisition, training and development, maintenance, and advancement of DFAS employees in all occupational series as set forth in the DFAS Career Development Plans and the Career Program Management Guide. This comprehensive program will develop and retain a well-trained work force with the competencies and education to adapt successfully to our changing work environment. Key positions will be filled by employees with the training/education, rotational/organizational assignments, and professional and leadership certification to meet these challenges. The components of the Career Management System include but are not limited to Career Development Plans, the Career Intern Program, Professional and Leadership Certification Program, Customer Service, Professional Development and Acquisition Training, Human Resources Generalist Certification Program and Training, Career Learning Centers, Financial Management Education and Training contract, Functional and Systems Training, and the Executive Training Suite.

The DFAS Professional and Leadership Certification Program is a competitive training and development program for eligible GS 12 through 15s and military equivalents. It provides a framework for developing leaders and preparing a cadre of highly trained, professional supervisors, managers, and executives to lead DFAS into the 21st Century. The program has four components: Educational Advancement, Professional Credentials, Career Broadening

Assignments, and Leadership Competencies. Participants will complete leadership and assessment programs and our Executive Training Suite (e.g., Staircase, Frameworks, Cornerstone, and DLAMP).

Developing leadership competencies is the basis for the Executive Training Suite provided to all those in leadership roles.

- Staircase is a four and a half day training program designed for DFAS GS-11s and all GS-12s. This course is designed to help participants understand what it means to be a leader, as well as to assess and develop each individual's leadership potential. Staircase addresses leadership skills, coaching, program analysis, conflict resolution, team-building, and creativity in the workplace.
- Frameworks is targeted for all GS-13s. This four and a half day training program was created to improve leadership competencies. It focuses on labor relations, empowerment, customer service, program analysis, and decision-making. The course is designed to educate employees at the critical GS-13 level by enhancing their current competencies and preparing them for higher level responsibilities.
- Cornerstone is for all GS-14s and GS-15s. This two-week course develops the competencies required for all Senior Executives: Leading Change, Leading People, Building Coalitions/Communication, Results-Driven, and Business Acumen (administering human resources, financial management, and information services within the organization). Specific topics covered in the course address leadership skills, strategic planning, decision making, problem analysis, conflict resolution, team building, and creativity in the workplace.
- DFAS is the executive agent for all Defense Agencies (all DoD Components that are not part of a military service) for the Defense Leadership and Management Program (DLAMP). Implementing recommendations of the Commission on Roles and Missions of the Armed Forces, DLAMP is a systematic, Department-wide program of "joint" civilian leadership training, education, and development within and across DoD Components. It provides the framework for developing future civilian leaders with a DoD-wide capability. It also fosters an environment that nurtures a shared understanding and sense of mission among civilian employees and military personnel. Participation in the initial DLAMP class is limited to individuals in GS-14, GS-15, or equivalent positions. The first class began in early 1998. The program was expanded to accept
- GS-13 participants in the September 1998 class and plans are being developed to include GS-12 participants in later years.
- DFAS has established Career Learning Centers (CLCs) to provide the tools used by employees to use the Career Development Plans, and training information to develop automated Individual Development Plans. The CLCs offer career development support and opportunities for self development and organizational assignments using assessment tools, career development tools, certification reviews, continuing professional education,

and college courses through satellite, multimedia, and other distance learning technologies. DMRD 985, Financial Management Education and Training, required the establishment of model Career Learning Centers at all DFAS locations. The Career Learning Centers provide one-stop locations for competency assessment, career planning, training, and education for all DFAS employees.

Business Processing Reengineering

In past years, numerous nonstandard financial management policies have been promulgated within the Department. This environment often resulted in the application of different standards for similar circumstances, thereby producing inconsistent or incompatible information or reports. In response to this situation, the Department developed a single “DoD Financial Management Regulation” to be used on a DoD-wide basis. The Department issued all 15 volumes by March 1997, replacing a myriad of existing policy guidance, clarifying existing guidance where appropriate, and including additional guidance as needed.

In April 1995, the Office of General Counsel initiated a business process reengineering (BPR) study of the Garnishment Operations Directorate which was being consolidated at the DFAS Cleveland Center. The consolidation, completed in October 1996, streamlines and standardizes the processing of garnishment orders for child support, alimony, commercial debts, and divisions of retired pay pursuant to the Uniformed Services Former Spouses’ Protection Act. When consolidation began, we estimated a staffing level of 225 personnel, including sufficient staff to accommodate the new workload attributable to garnishments and military involuntary allotments for commercial debts authorized by the Hatch Act Reform Amendments of 1993, Public Law No. 104-93. Upon completion of the BPR study, we estimated a staffing level of 125 personnel. As the Garnishment Operations Directorate implements the recommendations from the BPR study, the estimated staffing level has been reduced to 114 personnel. The recommendations include enhancement to the payroll locator file system, development of an integrated garnishment system, and development of an electronic document management (imaging) system.

In FY 1995, DFAS combined two Office of Management and Budget (OMB) reporting requirements in a single document, the Chief Financial Officers Act Financial Management Five-Year Plan. This plan reflected the OMB A-130 Information Management strategic plan requirement as well as the OMB A-127 and CFO Act Financial Management Five-Year Plan requirement. In FY 1996, we also combined the Federal Manager’s Financial Compliance Report into this plan. These reports were combined to eliminate redundancy and date-related conflicts.

In FY 1995, DFAS began a full and active OMB Circular A-76, Commercial Activities Program by initiating two studies in the areas of Debt and Claims Management and Facilities, Logistics, and Administration.

During FY 1996, the Debt and Claims Management study was terminated following an Internal Revenue Service ruling. DFAS, however, implemented the Government’s Most Efficient Organization (MEO) in May 1997, consolidating the Debt and Claims Management functions at

the Denver Center and saving over \$8.5 million annually. The Facilities, Logistics, and Administration study, completed in May 1997, resulted in the implementation of the Government's MEO. The MEO, which was implemented prior to the beginning of FY 1998, generated an annual savings of over \$4 million. The DECA Vendor Payment Study completed in September 1997, also resulted in the implementation of the MEO. The MEO, which was implemented during FY98, generated an annual savings of over \$10 million.

Currently DFAS has active A-76 studies in the areas of Defense Commissary Accounting, DoD Transportation Accounting, DoD Depot Maintenance Accounting, Civilian Payroll, and Military Retired and Annuitant Payroll. These studies, which are scheduled for completion in FYs 1999 and 2000, are expected to yield annual savings of over \$28 million. DFAS will continue to conduct A-76 studies in an effort to provide better service and reduce costs.

The Electronic Document Management (EDM) Program provides users with online access to financial documents and information, advances application of new methods and technologies, resolves management of large volumes of hard-copy documents, ensures the consistent implementation of business practices throughout DFAS, improves customer service, and reduces operating costs. EDM involves the collective application of three technologies: imaging, electronic foldering, and workflow. Together, these technologies automate the presentation of material, the integration of business applications, and the standardization of business processes. EDM has been successfully prototyped in the Vendor Pay area and is deployed at three locations. Two additional DFAS Vendor Pay sites are planned. For ease of development and deployment, EDM support for Contract Pay was separated into two releases. Release 1 supports contract input, and release 2 provides workflow. Both releases have been successfully prototyped and are scheduled for deployment through the Columbus Center. Release 2 development and prototyping continues. EDM is also being developed to support Payroll Services. An EDM system was installed on October 1, 1998, in the Garnishment Operations Directorate at the DFAS Cleveland Center. Further, the Program Manager continually evaluates other business operations which can benefit from the use of these technologies.

A major element of the EDM Program is Electronic Document Access (EDA), which uses Internet and World Wide Web (WWW) technology to share documents across the Department. DFAS has partnered with the Service and DoD Agency acquisition communities, the Defense Information Systems Agency (DISA), and the Defense Automated Printing Service (DAPS) to develop and implement an Intranet application that assures DoD-wide, online access to contracts and other documents stored at remote locations. EDA offers read-only access to official contract documents in a common file format that minimizes the need for DoD users to maintain hard-copy files. With the early success of contracts and Government Bills of Lading (GBLs) on the Web, EDA is being expanded to include payment vouchers and contract deficiency reports. In addition, we are continually evaluating new document types for inclusion in the EDA effort.

DFAS has established an Electronic Commerce Program Office to identify and implement EC/EDI and Electronic Funds Transfer (EFT) across the financial management community. Some of the highest EC/EDI priorities include: develop electronic processes to validate funds and record commitments in the accounting systems; create electronic contracts and contract

modifications in the contract writing systems and record them in the payment and accounting systems; process electronic receiving reports to the payment and accounting systems; accept and process electronic invoices from vendors in the payment systems; and automate the prevalidation of payments against obligations prior to disbursement. In addition, the project will increase the use of EFT, register small vendors to accept EC/EDI, and establish DoD standard implementation conventions for the financial community. Most of the Department's major vendor payment systems today already are transmitting EFT payments. The Garnishment Operations Directorate at the Cleveland Center is also involved in a pilot project with Lockheed Martin to send and receive child support garnishments via EC/EDI.

Another important example of DoD reengineering is the Government Purchase Card. This program is playing a major role in the Department's efforts to streamline the acquisition process and cut the costs of performing finance and accounting support for processing commercial invoices. The program allows individual government cardholders, using a Government Purchase Card, to purchase items or services -- primarily those \$2,500 or less called "micropurchases"-- from vendors. Under the current government-wide contract, the First Bank System reimburses the individual vendors for these purchases and the Department makes consolidated payments to First Bank.

In 1996, DFAS processed about 9.9 million commercial invoices. Although an estimated 7.7 million invoices met the micropurchase threshold, only about 1.2 million of these invoices were associated with the use of the Government Purchase Card.

The Department currently is reengineering its policies and procedures on using the charge card. Many of the acquisition preapprovals and procedures are being streamlined. The Government Purchase Card Program, as it is known today, is expected to result in a faster and simpler procurement process, faster payments to the vendors, faster processing of commercial invoices, and a reduction in workload for processing financial and procurement documents. This is a win-win situation. The government is able to procure its needs quicker and easier; the commercial vendors are reimbursed faster; and interest payments are virtually eliminated. These changes should result in an overall reduction in costs to the government both in dollars and manpower.

The acquisition changes will be accompanied by other changes in the finance and accounting world. Procedural changes and reengineering business practices by DFAS and DoD customers will increase the use of the charge card and generate millions of dollars of savings within the Department.

Reengineering practices include:

- Use of bulk commitments and/or obligations in the accounting systems for micropurchases.
- Use of summary level accounting in the vendor pay systems for groups of purchases instead of detailed lines of accounting for each transaction or purchase.

- Use of an accelerated invoice reconciliation and certification process for disbursing against commercial invoices.
- Use of an automated reconciliation process provided by the banks for customers to track individual micropurchases against summary commercial invoice data.

The Government Purchase Card reengineering initiative is consistent with the goals and objectives of the National Performance Review. The ongoing changes will enhance the Department's ability to provide less costly and improved finance and accounting services to its customers.

Problem Disbursements

Under the direction of the Under Secretary of Defense (Comptroller), DFAS, in coordination with the affected DoD Components, established a project to reduce problem disbursements and in-transits. This effort focused on resolving existing unmatched transactions, negative unliquidated obligations, and intransit transactions, and on making improvements in existing procedures and systems to prevent the occurrence of these problems. The project had a goal of reducing problem disbursements and in-transits by approximately 50 percent by the summer of 1994. This goal was achieved through the joint efforts of all parties involved. On June 30, 1995, the Under Secretary of Defense (Comptroller) issued a comprehensive set of procedures for researching and correcting problem disbursements. Between June 1996 and August 1998, the total absolute value of unmatched disbursements and negative unliquidated obligations was reduced by 20 percent from \$10.1 billion to \$8.1 billion. Additionally, aged intransits were reduced from a net value of \$5.5 billion to \$2.2 billion, a 60 percent drop since reporting aged intransit values was changed from modified absolute to net in May 1997.

Cross Disbursements

The DoD Cross Disbursement processing procedures were approved by OUSD(C) on February 28, 1996. Those procedures apply to all DoD Components and include cross disbursed cash transactions except Interfund transactions, centralized transportation payments at the DFAS Indianapolis Center, and open allotment transactions. The DFAS goal is to significantly reduce and eliminate cross disbursements through accounting systems enhancements, including the elimination of paper flow within the DFAS network.

In an effort to improve the disbursement process so as to minimize intransit disbursements, DFAS has developed short- and long-term solutions to eliminate intransits.

In the short-term, DFAS is converting business processes that produce "for others" transactions to processes that produce "for self" transactions. One example is the implementation of Transactions for Others (TFO) Cells for vendor payments. This process allows payments to be

prepared and collected at one accounting office and disbursed by another accounting office, thus simultaneously updating the accounting records. In addition, to improve the timeliness of recording intransits, DFAS is implementing automated processes to electronically transmit collections, disbursements, and reimbursables between DFAS accounting offices.

In the long-term, DFAS will prevalidate every disbursement to ensure the payment can be matched to an obligation before the payment is made. The Department is gradually lowering the threshold to zero for all payments. Further, DFAS is testing a system to route the relevant accounting data from a disbursing process to the relevant accounting office. This process will improve the accuracy of the data through edit criteria and the timeliness of updating the accounting records.

CFO Reporting

DFAS has a major responsibility to ensure that accurate, consistent, and auditable FY 1998 CFO Financial Statements are prepared. DFAS has taken action for the preparation of standard CFO financial statements and footnotes across the DoD. The DFAS Indianapolis Center provides special support to the DoD Chief Financial Officer, including the preparation of the DoD Agency-wide consolidated financial statements, supporting schedules, and notes.

The Statement of Federal Financial Accounting Standard (SFFAS) Number 4 – Managerial Cost Accounting Concepts and Standards, SFFAS Number 6 – Accounting for Property, Plant and Equipment, SFFAS Number 7 – Accounting for Revenue and Other Financing Sources, and SFFAS Number 8 – Supplementary Stewardship Reporting became effective beginning with the FY 1998 CFO Act financial statements.

DFAS hosted a DoD CFO Workshop in June 1998 with representatives from all functional areas involved in the CFO reporting process. These representatives included DFAS, our customers, the audit community, and the Office of Deputy Chief Financial Officers (ODCFO). The issues addressed during the workshop included numerous areas of concern and lessons learned from the FY 1997 CFO reporting process.

DFAS continues to work with our customers, the ODCFO (Accounting Policy), and the audit community to improve the CFO reporting guidance, requirements, process, and schedule. This working relationship should improve the quality and timeliness of the DoD's CFO statements.

To improve future CFO reporting DFAS has established a CFO After Action Report, which will identify the lessons learned, the planned versus actual completion dates of required CFO actions, and policy issues that require resolution before the next CFO reporting process.

Proactive Fraud Detection and Prevention

Operation Mongoose is DoD's fraud detection and prevention unit. It was established to minimize fraud against DoD financial assets. Operation Mongoose is managed by a DFAS program management team and involves several other DoD organizations. Computer matching techniques are used to compare various dissimilar computer systems operated by financial organizations within the Department to identify anomalies that occur when data that should be the same fails to match from one system to another. Areas of current interest include validation of vendor payments, military, civilian, and retired/annuitant payrolls, transportation payments, and payment system intrusion.

The Operation Mongoose methodology includes the combined team efforts of DFAS, the Defense Manpower Data Center (DMDC) in Monterey, California, and the DoD Inspector General's Office, including the Defense Criminal Investigative Service (DCIS). These three organizations are working together to develop fraud indicators that are generated by the discrepancies between systems, collect and compare data from all over DoD, detect the presence of anomalies within the DoD systems, examine the appropriate records to determine if the anomalies actually are a result of fraud, and pursue criminal charges against the people responsible for the fraud. The objective is to establish a permanently structured organization that will detect and prevent fraud by actively seeking it out, rather than waiting for it to surface by chance, be identified by informants, or be detected by random reviews that allow too great an opportunity for concealment of the crime.

The Operation Mongoose program manager has established a network that includes personnel already in place at the DFAS Centers, especially in their internal review organizations, in DoD financial and law enforcement agencies, and in several outside agencies including the U. S. Secret Service. The reviews have eliminated millions of dollars of suspected fraudulent and erroneous regular payments. Operation Mongoose is presently completing the development of a tracking and reporting system that will increase the ability to monitor and control the cases under consideration and keep responsible organizations informed of the investigation's status.

Finance and Accounting Initiatives

DFAS will modify, as necessary, and deploy standard finance and accounting systems for use DoD-wide. Standard migration systems will evolve incrementally into a vision-driven financial management system able to support decision making by all DoD managers and operating activities. Through these initiatives, DFAS expects increased standardization of DoD finance and accounting systems over the next five years, resulting in substantial savings for the taxpayer.

The DFAS Five-Year Plan is to systematically streamline the finance and accounting process by reducing the number of applications within the Defense environment. The following chart provides an overview of our current status and goals:

DoD Accounting and Finance System Inventory

	<u>FY 91</u>	<u>FY 92</u>	<u>FY 93</u>	<u>FY 94</u>	<u>FY 95</u>	<u>FY 96</u>	<u>FY 97</u>	<u>FY 98*</u>
Accounting	197	192	176	173	164	150	122	91
Finance	<u>127</u>	<u>120</u>	<u>102</u>	<u>97</u>	<u>92</u>	<u>67</u>	<u>34</u>	<u>18</u>
Total	324	312	278	270	256	217	156	109
Reduction (cumulative)		12	46	54	68	107	168	215
Percent (cumulative)		4%	14%	17%	21%	33%	52%	66%

*Represents core/critical systems reported to OMB per OMB Circular A-11, Section 15.5.

Accounting Systems

DFAS has undertaken a major effort toward reducing the number of DoD accounting systems and improving their compliance with Federal requirements. When DFAS was established, installation level accounting generally was performed at various military installations in decentralized field activity offices, using a variety of financial management information systems. These systems were tailored to meet the needs of the many diverse activities and frequently were integrated with the business operations that the applicable activities performed.

The complexity of accounting operations and the wide variety of automated information systems currently in use has shaped the Department's plan for migrating to standard DoD accounting systems.

By the end of FY 1998, DFAS had reduced the number of accounting systems to 91 core/critical systems from a high of 197 in FY 1991. This reduction was accomplished through the elimination and consolidation of redundant systems. DFAS will reduce the number of accounting systems to no more than 23 by FY 2003.

On April 17, 1996, DFAS established a Defense Accounting System Project Management Office (DAS PMO). In 1998 the DAS PMO was reconstituted as the Systems Integration Directorate. It is responsible for all migratory, interim migratory, and legacy accounting systems that DFAS owns and operates. The Systems Integration Directorate's mission is to manage the reduction of existing accounting systems. The DFAS goal is to provide accurate, timely, and effective customer support at the lowest possible cost. The overall objective is to field electronically linked accounting systems that comply with generally accepted government accounting principles and standards, comply with the Chief Financial Officers Act of 1990, and produce complete and accurate installation, command, DoD Component, and departmental-level accounting reports and financial statements. The mission includes the elimination of unneeded or obsolete legacy systems and the modification of systems, where necessary, to meet accounting system requirements. Specific objectives of the Systems Integration Directorate are to:

- Design the optimum system architecture and reduce costs and manpower necessary to operate and maintain accounting systems.
- Interface or integrate accounting systems with other accounting, pay, and reporting systems.
- Replace current legacy systems throughout the Department with standard consolidated systems using technologically advanced data processing techniques and telecommunications capabilities; and
- Standardize accounting data and processes, where appropriate.

**Accounting Core/Critical Systems By Category
Fiscal Year 1998**

Accounting Systems

- Working Capital Funds	48
- General Funds	19
- Foreign Military Sales	8
- Departmental Reporting	9
- Cash Accountability	6
- Trust Funds	1
Total	91

Finance Systems

DFAS has made substantial progress toward the consolidation and standardization of financial systems to meet DoD ever changing requirements. DFAS consolidated retiree and annuitant pay operations on one standard system, the Defense Retiree and Annuitant Pay System, with a resulting cost reduction of \$10 million per year. DFAS also implemented a single standard system and consolidated into one operating location its out-of-service debt management functions. System costs were reduced by \$1 million per year while the consolidated operation resulted in a \$8.5 million annual savings. Travel computation software was standardized across DFAS, Defense Agencies, and all Military Services. DFAS has consolidated the printing of all savings bonds for the Department from over 190 bond issuing sites, using 20 different systems, to two DFAS Centers, using one system. DFAS also has a standard automated process of safekeeping savings bonds for active duty military members. DFAS has completed implementation of a standard system for processing civilian pay, the Defense Civilian Pay System (DCPS). This initiative has allowed the Department to close 349 payroll offices and eliminate 26 legacy civilian pay systems. Approximately 730,000 civilians are now paid using DCPS. The Department also has made substantial progress in moving to standard military pay systems, eliminating 18 of its former 22 military pay systems. The active component of Navy moved to the standard Defense Joint Military Pay System in February 1998, and the Reserve component will move in 1999. By the end of FY 2001, the Department will operate only two military pay systems. DFAS is also developing a Defense Standard Disbursing System (DSDS) strategy that will standardize the current disbursing business process.

Financial Systems By Category

<u>Finance Systems</u>	
- Civilian Pay	1
- Military/Retired Pay	5
- Disbursing	4
- Transportation Pay	2
- Contract/Vendor Pay	4
- Travel Pay	1
- Debt Management	1
Total	<u>18</u>

*Represents core/critical systems reported to OMB per OMB Circular A-11, Section 15.5.

Some specific achievements are discussed below:

Defense Civilian Pay System (DCPS)

In June 1998, DFAS completed the implementation of all civilian payroll accounts to the Defense Civilian Pay System (DCPS), closing 349 civilian payroll offices and eliminating 26 legacy civilian pay systems. Approximately 730,000 DoD civilian employees and 1,500 Executive Office of the President employees are paid from three DFAS locations at DFAS Denver, Charleston, and Pensacola.

Modifications were made during FY 1998 to DCPS to support civilian pay processing in the Year 2000. Year 2000 contingency planning and end-to-end testing with selected trading partners are well underway. DCPS system modifications were also made to accommodate the Army and Air Force demonstration projects and implementation of the Department's new policy for Compensatory Time.

In 1999, DCPS on-line history will increase from 13 pay periods to 26 pay periods, which will give DCPS a full year of retroactive processing. This feature provides payroll offices and Customer Service Representatives a greater overview of the employee data for researching and resolving employees pay issues. System modifications will also be made to implement significant changes in the firefighter pay calculations contained in the Firefighter Overtime Pay Reform Act of 1998. Initiatives are also underway which will allow employees to change selected data via the World Wide Web and to receive their Leave and Earnings Statements electronically.

Defense Joint Military Pay (DJMS) System

DFAS has a strategic initiative to standardize and consolidate the automated systems that support military pay under two systems: the Defense Joint Military Pay System (DJMS) and Marine Corps Total Force System (MCTFS). All Army, Navy, and Air Force military pay functions will be under the DJMS. Because the Marine Corps has an integrated military personnel and pay system, its Active Duty and Reserve military pay are supported by MCTFS. Both DJMS and MCTFS will become a part of the Office of the Undersecretary of Defense for Personnel and Readiness (OUSDP&R) initiative to fully integrate personnel and pay in the Department of Defense. Significant savings are expected from standardizing military personnel and pay policies, procedures, and systems.

The Department's military pay operations support about 3 million uniformed men and women in the following categories, each with its own statutes, rules, regulations, and unique support structures: Active Duty, Reserve and National Guard, Academy Cadets and Midshipmen, Reserve Officer Training Corps (ROTC), Junior Reserve Officer Training Corps (JROTC), and Armed Forces Health Professionals Scholarship Program (AFHPSP). About 1.5 million active duty personnel are paid twice a month (97 percent via EFT), while most of the other categories are paid on an "as required" basis.

In conjunction with the consolidation and standardization of the automated military pay systems, DFAS is conducting a Business Process Review (BPR) study to document current military pay work methods, flows, staffing, and technology in use at the four Military Pay centers (Cleveland, Denver, Indianapolis, and Kansas City). The purpose of the BPR is to achieve the best, most cost-efficient operation possible for servicing the 3 million military personnel paid by DFAS.

Defense Retiree and Annuitant Pay System (DRAS)

All military retiree and annuitant pay has been consolidated into the Defense Retiree and Annuitant Pay System (DRAS), with all retirees paid at the DFAS Cleveland Center and all annuitants paid at the DFAS Denver Center. This consolidation not only standardized policies and procedures across the Military Services, but most importantly, reduced the costs of maintaining multiple systems. The DRAS consolidation, completed on April 1, 1995, effectively replaced eight systems. To accommodate growth in the customer base, the Department continues enhancing technology and operations. In February 1996, a Business Process Review (BPR) of the DRAS electronic document management process was initiated. The purpose of this BPR was to develop options for implementing a standard business process to maximize automation and enhance the workflow operations. As a result of the study, an Imaging Replacement Plan was developed and approved in December 1997. Initial funding to support associated software began in FY 1998. Funding to complete the project is budgeted for FY 1999.

Defense Travel System (DTS)

In 1995, DoD established a Travel Reengineering Task Force to streamline temporary duty travel. Based on the recommendations of the task force, the Deputy Secretary of Defense directed sweeping changes in the Department's travel processes. The first action was to establish a Reengineering Travel Transition Office to formulate policies and procedures for temporary duty travel. In September 1995, a Program Management Office was formed to design and acquire a new Defense Travel System (DTS). The contract was awarded on May 7, 1998, however, it was not effective until September 30, 1998. Projected date for the implementation of the new DTS, under the direction of the OUSD Project Management Office (PMO), is May 1999. The PMO will phase in the new system over a three-year period. The target date for completion is 2002.

Integrated Automated Travel System (IATS) 5.1 provides a standard travel computation system for DFAS, Defense Agencies, and Military Services. IATS 5.1 provides EFT and split disbursement capability among its many improvements over earlier versions. During implementation of the DTS, IATS will continue to compute travel vouchers not covered under the DTS umbrella. As additional entitlement sections of the DoD travel regulations are simplified (i.e., reserve and permanent change of station), those types of travel will shift from IATS to DTS.

Defense Transportation Payment System (DTRS)

The Transportation Information Payment System was chosen as the standard DoD-wide transportation payment system on December 10, 1992. Renamed the Defense Transportation Payment System (DTRS), it supports the DoD initiative to consolidate and standardize transportation payments and will interface with the DoD standard accounting and disbursing systems. The DTRS includes the following features:

- Receives transportation GBL and invoices via EDI.
- Performs a prepayment audit of transportation bills.
- Disburses using EFT.
- Manages claims and collections.

The implementation schedule for DTRS is currently under review.

Mechanization of Contract Administration Services (MOCAS)

Payments on approximately 96 percent of the 1.4 million invoices for the nearly 400,000 centrally-managed, high-dollar contracts are made by the DFAS Columbus Center. These payments are made primarily through an integrated contract management and payment system—MOCAS. Although MOCAS is no longer identified as the standard DoD contract payment migration system, it remains active and serves as the DoD contract payment legacy system. The proposed standardized DoD system for contract payments (under development) is the Defense Procurement Payment System (DPPS). One of the key elements of DPPS will be the systems integration with the Standard Procurement System and the Shared Procurement Data Warehouse System. In addition to determining contractor entitlements and disbursing payments, the Columbus Center also builds and maintains the MOCAS database used by the DoD's contract administration community. Seventy percent of the dollar value of these major contracts is paid using EFT.

DFAS is also implementing EC/EDI in the contract pay area. Currently, efforts are underway to transmit contract data from eight major contract writing systems to the contract payment system, MOCAS (five are implemented, three underway), and seven accounting systems (all are underway). This automated effort will eliminate duplicate data entry and provide timely distribution of contract and financial information. In addition, MOCAS has the capability of receiving contractor invoices transmitted via EDI. This effort will reduce the duplication of input by DFAS personnel and input errors.

Defense Debt Management System (DDMS)

Debt management is an integral part of current military pay, retiree and annuitant pay, civilian pay, travel pay, and disbursing systems for those individuals “in-service” owing money to the government. Similarly, for contractor debts, initial debt collection activities are an integral part of current transportation payment, vendor payment, and contract payment systems. Debt collection procedures are designated to facilitate the prompt collection of debts from individuals and contractors, while providing full due process in accordance with the Debt Collection Act of 1982. The debt collection process has been further improved with the implementation of the Debt Collection Improvement Act (DCIA) of 1996, which allows for the expeditious recovery of certain debts resulting from routine pay adjustments. DFAS currently accomplishes a myriad of file searches, data matches, and reconciliations both internal and external to DFAS pay systems. The purpose of these efforts is to detect potential overpayments, erroneous payments, and possible fraudulent activity; implement corrective actions; and collect resulting debts. DFAS also includes the Department’s delinquent debt in the Treasury’s National Interactive Delinquent Debtor Database (NID3) for debts to be matched against all federal payments. This process will implement the administrative offset provisions of the DCIA, providing yet another tool to increase debt collection within the federal government.

For individuals not receiving pay within the department (out-of-service), debt management is centralized at the DFAS Denver Center with over 200,000 cases processed annually. Delinquent contractor debts are managed at the DFAS Columbus Center with approximately 3,000 delinquent debts valued at over \$2.8 billion. It should be noted that approximately \$1.9 billion of the total contractor debt is not legally enforceable for debt collection, mainly, because these debts are in deferment or pending deferment by the Armed Services Appeal Board of Contract Appeals. Both operations use the Defense Debt Management System (DDMS), hosted at the DFAS Denver Center, to maintain and manage their debt portfolios. DDMS uses a wide range of collection techniques to collect DoD debt, including sending dunning letters to debtors, reporting delinquent debtors to credit bureaus, and referring delinquent debtors to collection agencies for collection assistance and to the Internal Revenue Service for offset against an individual’s federal income tax refund. In FY98, DDMS recovered over \$193 million in individual and contractor debts due the Department.

Defense Standard Disbursing System (DSDS)

The program mission of the DSDS is to develop a strategy to modernize business processes as well as define standard data that can be shared. The system currently under development will replace existing service/center specific disbursing systems and modules with a single automated information system. DSDS will be a standard disbursing system that will be used DFAS-wide to make payments, accept collections, and maintain accountability for public funds.

DSDS, through the DFAS Corporate Data Base (DCD), will operate in concert with interim and migratory DoD entitlement and accounting systems to produce accurate disbursing transactions and reports. While DSDS will be capable of creating disbursing transactions itself (through manual input), it will primarily import data from these entitlement systems to automatically generate payments and collections. DSDS will then export, back to the DCD, relevant data to the appropriate accounting systems for balancing and reporting.

Manpower

DFAS has taken aggressive measures to respond favorably to the DoD manpower requirement to downsize both the military and civilian workyear levels. For the last four years, DFAS has exceeded the OUSD(C) mandatory civilian and military reduction goals.

The military and civilian workyears employed at DFAS as of September 30, 1998:

Military	1,438
Civilian	16,694

Organization

DFAS Finance and Accounting Centers:

DFAS Headquarters, Arlington, VA.

DFAS Cleveland Center, Cleveland, OH.

DFAS Columbus Center, Columbus, OH.

DFAS Denver Center, Denver, CO.

DFAS Indianapolis Center, Indianapolis, IN.

DFAS Kansas City Center, Kansas City, MO.

In addition to their own operation, several Centers have responsibility for field locations throughout the United States. The following is the current Center responsibility list:

<u>Responsible Center</u>	<u>Operating Location</u>
Cleveland	Charleston, SC Pacific (formerly Honolulu, HI) Norfolk, VA Oakland, CA Pensacola, FL San Diego, CA
Denver	Dayton, OH Limestone, ME Omaha, NE San Antonio, TX San Bernardino, CA
Indianapolis	Orlando, FL Lawton, OK Lexington, KY Rock Island, IL Seaside, CA St. Louis, MO Rome, NY Memphis, TN

A standard operational structure aids the implementation of new technologies and business practices. Thus, DFAS OPLOCs, which focus primarily on installation accounting and vendor pay, have standard organizations and procedures. In addition to a director and principal deputy director, each OPLOC has three Directorates: accounting, finance, and administration. The three OPLOCs with civilian pay functions also have civilian pay Directorates.

At the end of FY 1998, DFAS consists of a headquarters located in Arlington, Virginia, with five centers located in Cleveland, Ohio; Columbus, Ohio; Denver, Colorado; Indianapolis, Indiana; and Kansas City, Missouri; and 19 OPLOCs located nationwide. Consolidation of field activities into no more than 24 was completed by July 1998. Studies are underway to consolidate overseas locations.

All the above activities directly support major DFAS programs, promoting effective and efficient finance and accounting services during times of peace and conflict.

Fiscal Year 1998

Total FY 1998 DFAS revenue for the Financial Operations business area was \$1.564 billion, a 12 percent decrease from the FY 1996 level of \$1.770 billion. Expenses decreased 3.6 percent to \$1.585.8 billion in FY 1998 compared to \$1.645 billion in FY 1997.

Source of Funds

During FY 1998, the principal source of funds for DFAS was revenue received from DoD components for which DFAS performed finance and accounting services. The sources of DFAS revenue were as follows:

	Amount (Dollars in Millions)
Army	\$552.5
Air Force	327.0
Navy	366.0
Marine Corps	68.6
Defense Agencies	209.5
Foreign Military Sales (FMS)	40.4
Total	\$1,564.0

DFAS Earned Authority

	(Dollars in Millions)
Total Earned Authority	\$1,628.5
Total Expenses	\$1,585.8
Difference	\$42.7
Percent of Earned Authority	97.4%

In FY 1998 as in FY 1997, DFAS successfully executed its mission at total costs well below its available earned authority, reflecting the Agency's continuing efforts to control costs. For the majority of output measures, costs were either under or slightly above the target. Three targets showed significant overages: Civilian Pay, Transportation Bills Paid, and Standard Automated Material Management System (SAMMS) Invoices.

DFAS has been studying an alternative way to measure the costs of accounting services. Currently, most of these costs are captured in Monthly Trial Balances Maintained output. DFAS is reviewing the use of billable hours as a better means of capturing and evaluating accounting costs. Initial testing of Direct Billable Hours (DBH) began in FY 1997. Testing will continue into FY 1999, with a proposal to implement the use of DBH in FY 2000. DFAS is also continuing to explore ways to pass on savings to our customers from new technologies like

electronic commerce and through improved business practices like the use of the purchase card. Incentive rates have been proposed for use of electronic commerce in the areas of Commercial Invoices Paid - Mechanization of Contract Administration Services, Commercial Invoices Paid - Standard Automated Material Management System, and Travel Vouchers Paid. Additionally, the use of the DoD Purchase Card is projected to provide dramatic savings in the future as it is implemented by our customers.

Unit Cost Improvements

Unit cost improvements have occurred due to the consolidation and integration of a variety of financial management and accounting systems. Productivity has increased as business processes have been standardized and reengineered, to include financial information in a greater number of program management systems. Efficiencies have been gained through centralizing civilian and military pay functions among the Centers and Operating Locations. Structural organization changes have proven to be successful and have improved coordination among the various field activities and commercial vendors with regards to invoicing and commercial payments. Policy changes have allowed for greater consistency in the categorization of assets and associated valuation methods as they relate to inventory and property. Although DFAS has accomplished much, more improvements continue to be done in the areas of systems development, electronic commerce, and electronic data interchange that should allow for even greater efficiency gains in the future.

OPERATING EFFICIENCY **UNIT COST GOALS TO ACTUALS**

FINANCIAL OPERATIONS	GOAL	ACTUAL	PERCENT OF GOAL
CIV PAY ACCT MAINT	3.19	3.32	104%
CIV PAY-DBMS PARTIAL	N/A	11.67	N/A
ACT MIL PAY ACCT	7.98	8.41	105%
RET MIL PAY ACCT	2.22	2.26	102%
RES MIL PAY ACCT	3.18	3.32	104%
CNTRCT INV-MOCAS	104.49	95.72	92%
TRAVEL VOUCHERS PD	15.99	14.58	91%
TRANS BILL PD	13.85	16.91	122%
COMMERCIAL INV PD	15.02	15.65	104%
OOS DEBT CASES	125.48	106.62	85%
MON TRIAL BAL MAINT.	1294.82	1097.03	85%
ACCTG & FIN SPT.	2460.11	2447.48	99%
FMS CASES MANAGED	167.47	159.77	95%
CNTRCT INV-SAMMS	8.12	9.35	115%
INCREMENTAL MIL PAY	11.57	12.36	107%
OTHER OUTPUTS			
SUPPORT TO OTHERS	106,100,000	52,581,179	49.56%

DFAS Issues to the Year 2000 and Beyond

DFAS is a service organization and must be flexible to meet the changing needs of customers supported with efficient operations in peacetime and the ability to expand rapidly to meet any type of military emergency. As the size of the military establishment is reduced, the workload of DFAS will also be reduced. Major efforts will be required to adjust operations to produce cost-effective products that are required by law or for which customers are willing to pay.

The finance and accounting business processes are being revolutionized in the 1990s, both vertically within the finance and accounting functional areas and laterally across functional lines. The business processes are being improved on a phased basis in conjunction with fielding migratory systems and evolving new systems, and implementing corporate information management functional requirements and concepts. Finance and accounting systems are being standardized and integrated and operations will be centralized at a small number of locations. Use of technology is being applied to reduce or eliminate paper and improve efficiency. At the same time, the quality of service and internal controls is being improved.

A major challenge is downsizing staff with minimum impact on people and operations while upgrading the qualification of the remaining work force. With so much change both within DFAS and the organizations it serves, extraordinary measures are being taken to avoid problems in internal controls and services as standard migratory systems are implemented and operations are relocated to central sites.

DFAS has made significant progress within the past seven years toward consolidating and standardizing finance and accounting within DoD, but much remains to be done to achieve financial management reform. Major challenges still lie ahead. DFAS will play a key role in the DoD-wide efforts in future financial management challenges.

FINANCIAL SYSTEMS ORGANIZATION

Description of the Reporting Entity

The Defense Finance and Accounting Service (DFAS) Information Services Activity functions as a fee-for-service operation in the DWCF. Organizations within this Activity provide software development/modernization and systems maintenance support to over 100 Automated Information Systems (AIS). Additionally, they provide overall technical support in a number of system-related areas including the acquisition of information technology, systems deployment, and support for the DFAS information technology (I/T) infrastructure.

The Activity is comprised of organizations located in Cleveland, Ohio; Columbus, Ohio; Pensacola, Florida; Indianapolis, Indiana; Kansas City, Missouri; Lexington Park, Maryland; and Denver, Colorado. During FY 1998, the Activity delivered over 2.5 million direct labor hours in accomplishing its software development and maintenance mission.

In addition to providing much of the technical support that resulted in many of the accomplishments noted in the DFAS Financial Operations section of this report, the Activity's major initiatives during FY 1998 included:

Realignment of the five Financial Systems Activities located in Cleveland, Columbus, Denver, Indianapolis, and Kansas City with the collocated DFAS Center. This realignment reflects DFAS recognition and implementation of National and Defense legislation and strategic direction related to the information and technology functional area by providing the following business process changes.

- Placing the responsibility for both Financial Operations and Information Service under one manager.
- Establishing a Center Director for Information and Technology within each DFAS Center to serve as the Center Chief Information Officer and oversee all information and technology activities of the Center/OPLOC.

The Patuxent River Navy Central Design Activity was capitalized by DFAS and brought into the FSO Activity in February 1998. Since that date, the activity's authorized workyears have increased; workload priority has been aligned with the customer's requirements; a review of their internal business processes has been conducted; and several other initiatives to improve their productivity and reduce their cost have been implemented.

The Activity's Software Process Improvement (SPI) program is a continuous, multiyear effort to standardize and improve software development processes and practices. The Capability Maturity Model (CMM) developed by Software Engineering Institute (SEI) continues as the basis for this program which achieved an overall CMM Level II status in FY 1997. During FY 1998 the strategy and plans for the Software Process Improvement (SPI) Level 3 prototype sites to attain CMM Level III status were developed, and two Capability Maturity Model Based Appraisal Internal Process Improvement (CBAIPI) workshops for the SPI Level 3 prototype sites were held. Additionally, plans were coordinated to perform the first DFAS SPI Level 3 evaluation for Software Engineering Organization Pensacola in January 1998.

During FY 1998 the Activity continued its information technology (IT) support in assessing and changing many DFAS applications in the area of Year 2000 (Y2K) compliance. The Y2K problem impacts DFAS' Automated Information Systems (AIS) and its AIS hardware. The DFAS overall goal is to provide a DFAS-wide coordinated effort that ensures no system is adversely affected by Y2K problems. This goal will allow the DFAS components the flexibility to implement solutions as deemed appropriate while benefiting from best practices in a coordinated effort. DFAS has completed the awareness and assessment phases. Y2K points of contact have been assigned at multiple levels throughout the organization to coordinate all Y2K efforts. An inventory of the DFAS AIS has been created and all have been analyzed for potential Y2K impact. Of the systems currently being tracked, approximately one-third are being repaired, one-third are scheduled for replacement, and one-third are already compliant or are in development.

DFAS is on schedule to meet its goal of having all systems certified as Y2K compliant and implemented not later than March 31, 1999.

Manpower

The FSO Activity was given an additional 100 workyears in FY 1998 to avoid growth in its dependence on expensive contractor augmentation. Although some savings were realized from this initiative, the demand for skilled information technology workers in the private sector frustrated our efforts to fully recruit this workforce.

The military and civilian end strength was:

Military	88
Civilian	1,351

Selected Financial Data:

	FY97	FY98	Net Change
Revenues (\$M)	\$204.1	\$208.9	\$4.8
Expenses (\$M)			
Direct Billable Labor Hour	145.1	132.8	-12.4
Support to Others	56.1	72.1	16.0
Total	201.2	204.9	3.7
Net Operating Result (\$M)	2.9	4.0	1.1
Unit Cost per Hour	\$56.71	\$52.60	\$-4.11

The decrease in the Direct Billable Hour expenses between FY 97 and FY 98 are primarily attributable to relatively constant workload, increased availability of civilian workyears, reduction in General and Administrative expenses, and reductions in DISA's billing rates. The growth in the Support to Others program is the result of the new Patuxent River mission.

***DEFENSE FINANCE
AND
ACCOUNTING SERVICE***

***WORKING CAPITAL
FUND***

OPERATIONS

PRINCIPAL STATEMENTS

Defense Working Capital Fund, Defense Finance and Accounting Service
CONSOLIDATING BALANCE SHEET
As of September 30, 1998
(\$ in Thousands)

	Fin Oper
ASSETS	
1. Entity Assets:	
A. Intragovernmental	
1. Fund Balance With Treasury (Note 2)	(145,886)
2. Investments, Net (Note 4)	0
3. Accounts Receivable, Net (Note 5)	64,038
4. Other Assets (Note 6)	0
B. Total Intragovernmental	<u>(81,848)</u>
C. Investments (Note 4)	0
D. Accounts Receivable, Net (Note 5)	86
E. Loans Receivables and Related Foreclosed Property, Net (Note 7)	0
F. Cash and Other Monetary Assets (Note 3)	0
G. Inventory and Related Property, Net (Note 8)	0
H. General Property, Plant and Equipment, Net (Note 9)	650,596
I. Stewardship Assets (National Defense PP&E, etc.)	N/A
J. Other Assets (Note 6)	25,255
K. Total Entity Assets	<u>594,089</u>
2 Non-Entity Assets:	
A. Intragovernmental	
1. Fund Balance With Treasury (Note 2)	0
2. Accounts Receivable, Net (Note 5)	0
3. Other Assets (Note 6)	0
B. Total Intragovernmental	<u>0</u>
C. Accounts Receivable, Net (Note 5)	
D. Cash and Other Monetary Assets (Note 3)	0
E. Other Assets (Note 6)	0
F. Total Non-Entity Assets	<u>0</u>
3 Total Assets	<u><u>594,089</u></u>

The accompanying notes are an integral part of these statements

Department of Defense
 Defense Working Capital Fund, Defense Finance and Accounting Services
 CONSOLIDATING BALANCE SHEET
 As of September 30, 1998
 (\$ in Thousands)

	Fin Oper
LIABILITIES	
4 Liabilities Covered by Budgetary Resources:	
A. Intragovernmental:	
1. Accounts Payable	201,580
2. Environmental Cleanup (Note 11)	0
3. Debt (Note 10)	0
4. Other Liabilities (Note 11, 12, and 15)	0
B. Total Intragovernmental	201,580
C. Accounts Payable	123,646
D. Liabilities for Loan Guarantees	0
E. Military Retirement Benefits and Other Employment Post-Employment Benefits (Note 13) Related Actuarial Liabilities (Note 13)	0
F. Environmental Cleanup (Note 11)	
G. Other Liabilities (Notes 11, 12 and 15)	12,078
H. Total Liabilities Covered by Budgetary Resources	337,304
5 Liabilities Not Covered by Budgetary Resources:	
A. Intragovernmental:	
1. Accounts Payable	0
2. Debt (Note 10)	0
3. Environmental Cleanup (Note 11)	0
4. Other Liabilities (Notes 11, 12 and 15)	0
B. Total Intragovernmental	0
C. Accounts Payable	0
D. Debt (Note 10)	0
E. Military Retirement Benefits and Other Employment Post-Employment Benefits (Note 13) Related Actuarial Liabilities (Note 13)	0
F. Environmental Cleanup (Note 11)	0
G. Other Liabilities (Notes 11, 12 and 15)	45,336
H. Total Liabilities not Covered by Budgetary Resources	45,336
6 Total Liabilities	382,640
NET POSITION	
7 Unexpended Appropriations (Note 14)	0
8 Cumulative Results of Operations	211,449
9 Total Net Position	211,449
10 Total Liabilities and Net Position	594,089

The accompanying notes are an integral part of these statements

Department of Defense
Defense Working Capital Fund, Defense Finance and Accounting Service
CONSOLIDATING STATEMENT OF NET COST
For the period ending September 30, 1998
(\$ in Thousands)

	Fin Oper
1 Program Costs	
A. Intragovernmental	985,188
B. With the Public	600,681
C. Total Program Cost	<u>1,585,869</u>
D. Less: Earned Revenues	<u>(1,563,999)</u>
E. Net Program Costs	21,870
2 Costs Not Assigned to Programs	0
3 Less: Earned Revenues Not Attributable to Programs	<u>0</u>
4 Deferred Maintenance (Note 17)	0
5 Net Cost Of Operations	<u><u>21,870</u></u>

Additional information included in Note 16.

The accompanying notes are an integral part of these statements.

Department of Defense
Defense Working Capital Fund, Defense Finance and Accounting Service
CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION
For the period ending September 30, 1998
(\$ in Thousands)

	Fin Oper
1 Net Cost of Operations	21,870
2 Financing Sources (Other than Exchange Revenues):	
A. Appropriations Used	0
B. Taxes (and Other Non-exchange Revenue)	0
C. Donations (Non-exchange Revenue)	0
D. Imputed Financing	0
E. Transfers-In	10,246
F. Transfers-Out	(66,351)
	<hr/>
3 Net Results of Operations (Line 2 less Line 1)	(77,975)
	<hr/>
4 Prior Period Adjustments (Note 18)	86,980
	<hr/>
5 Net Change in Cumulative Results of Operations	9,005
6 Increase (Decrease) in Unexpended Appropriations	0
	<hr/>
7 Change in Net Position	9,005
8 Net Position-Beginning of the Period	202,443
	<hr/>
9 Net Position-End of Period	211,448
	<hr/> <hr/>

Additional information included in Note 18.

The accompanying notes are an integral part of these statements.

Department of Defense
 Defense Working Capital Fund, Defense Finance and Accounting Service
COMBINING STATEMENT OF BUDGETARY RESOURCES
 For the period ending September 30, 1998
 (\$ in Thousands)

BUDGETARY RESOURCES:	Fin Oper
1 Budget Authority	124,674
2 Unobligated Balance - Beginning of Period	(29,626)
3 Net Transfers Prior-Year Balance, Actual (+/-)	1,214
4 Spending Authority from Offsetting Collections	1,563,465
5 Adjustments	0
6 Total Budgetary Resources	<u>1,659,727</u>
STATUS OF BUDGETARY RESOURCES:	
7 Obligations Incurred	1,579,398
8 Unobligated Balances - Available	80,329
9 Unobligated Balances - Not Available	0
10 Total, Status of Budgetary Resources	<u>1,659,727</u>
OUTLAYS:	
11. Obligations Incurred	1,579,398
12. Less: Spending Authority From Offsetting Collections and Adjustments	<u>(1,563,465)</u>
13. Obligated Balance, Net - Beginning of Period	602,473
14. Obligated Balance Transferred, Net	0
15. Less: Obligated Balance, Net - End of Period	(473,734)
16. Total Outlays	<u>144,672</u>

Additional information included in Note 19.

The accompanying notes are an integral part of these statements.

Department of Defense
Defense Working Capital Fund, Defense Finance and Accounting Service
COMBINING STATEMENT OF FINANCING
For the period ending September 30, 1998
(\$ in Thousands)

	Fin Oper
1. OBLIGATIONS AND NONBUDGETARY RESOURCES:	
A. Obligations Incurred	1,579,398
B. Less: Spending Authority for Offsetting Collections and Adjustments	(1,563,465)
C. Donations Not in the Entity's Budget	0
D. Financing Imputed for Cost Subsidies	0
E. Transfers-In (Out)	(56,105)
F. Exchange Revenue Not in the Entity's Budget	0
G. Other	0
H. Total Obligations as Adjusted and Nonbudgetary Resources	<u>(40,172)</u>
2. RESOURCES THAT DO NOT FUND NET COST OF OPERATIONS:	
A. Change in Amount of Goods, Services, and Benefits Ordered but Not Yet Received or Provided	(15,195)
B. Costs Capitalized on the Balance Sheet	(62,808)
C. Financing Sources That Fund Costs of Prior Periods	86,981
D. Other	0
E. Total Resources That Do Not Fund Net Costs of Operations	<u>8,978</u>
3 COSTS THAT DO NOT REQUIRE RESOURCES:	
A. Depreciation and Amortization	169,471
B. Revaluation of Assets and Liabilities	0
C. Other	4,320
D. Total Costs That Do Not Require Resources	<u>173,791</u>
4 Financing Sources Yet to be Provided	<u>(120,727)</u>
5 Net Cost of Operations	<u><u>21,870</u></u>

Additional information included in Note 20.

The accompanying notes are an integral part of these statements.

Department of Defense
Defense Working Capital Fund, Defense Finance and Accounting Service
CONSOLIDATING BALANCE SHEET
As of September 30, 1998
(\$ in Thousands)

	ISO
ASSETS	
1. Entity Assets:	
A. Intragovernmental	
1. Fund Balance With Treasury (Note 2)	(711)
2. Investments, Net (Note 4)	0
3. Accounts Receivable, Net (Note 5)	43,271
4. Other Assets (Note 6)	0
B. Total Intragovernmental	42,560
C. Investments (Note 4)	0
D. Accounts Receivable, Net (Note 5)	1
E. Loans Receivables and Related Foreclosed Property, Net (Note 7)	0
F. Cash and Other Monetary Assets (Note 3)	0
G. Inventory and Related Property, Net (Note 8)	0
H. General Property, Plant and Equipment, Net (Note 9)	20,854
I. Stewardship Assets (National Defense PP&E, etc.)	N/A
J. Other Assets (Note 6)	8,901
K. Total Entity Assets	72,316
2 Non-Entity Assets:	
A. Intragovernmental	
1. Fund Balance With Treasury (Note 2)	0
2. Accounts Receivable, Net (Note 5)	0
3. Other Assets (Note 6)	0
B. Total Intragovernmental	0
C. Accounts Receivable, Net (Note 5)	
D. Cash and Other Monetary Assets (Note 3)	0
E. Other Assets (Note 6)	0
F. Total Non-Entity Assets	0
3 Total Assets	72,316

The accompanying notes are an integral part of these statements

Department of Defense
Defense Working Capital Fund, Defense Finance and Accounting Services
CONSOLIDATING BALANCE SHEET
As of September 30, 1998
(\$ in Thousands)

	ISO
LIABILITIES	
4 Liabilities Covered by Budgetary Resources:	
A. Intragovernmental:	
1. Accounts Payable	21,019
2. Environmental Cleanup (Note 11)	0
3. Debt (Note 10)	0
4. Other Liabilities (Note 11, 12, and 15)	0
B. Total Intragovernmental	21,019
C. Accounts Payable	21,899
D. Liabilities for Loan Guarantees	0
E. Military Retirement Benefits and Other Employment Post-Employment Benefits (Note 13) Related Actuarial Liabilities (Note 13)	0
F. Environmental Cleanup (Note 11)	
G. Other Liabilities (Notes 11, 12 and 15)	1,396
H. Total Liabilities Covered by Budgetary Resources	44,314
5 Liabilities Not Covered by Budgetary Resources:	
A. Intragovernmental:	
1. Accounts Payable	0
2. Debt (Note 10)	0
3. Environmental Cleanup (Note 11)	0
4. Other Liabilities (Notes 11, 12 and 15)	0
B. Total Intragovernmental	0
C. Accounts Payable	0
D. Debt (Note 10)	0
E. Military Retirement Benefits and Other Employment Post-Employment Benefits (Note 13) Related Actuarial Liabilities (Note 13)	0
F. Environmental Cleanup (Note 11)	
G. Other Liabilities (Notes 11, 12 and 15)	6,084
H. Total Liabilities not Covered by Budgetary Resources	6,084
6 Total Liabilities	50,398
NET POSITION	
7 Unexpended Appropriations (Note 14)	0
8 Cumulative Results of Operations	21,918
9 Total Net Position	21,918
10 Total Liabilities and Net Position	72,316

The accompanying notes are an integral part of these statements

Department of Defense
Defense Working Capital Fund, Defense Finance and Accounting Service
CONSOLIDATING STATEMENT OF NET COST
For the period ending September 30, 1998
(\$ in Thousands)

	ISO
1 Program Costs	
A. Intragovernmental	124,481
B. With the Public	80,419
C. Total Program Cost	<u>204,900</u>
D. Less: Earned Revenues	<u>(208,925)</u>
E. Net Program Costs	(4,025)
2 Costs Not Assigned to Programs	0
3 Less: Earned Revenues Not Attributable to Programs	<u>0</u>
4 Deferred Maintenance (Note 17)	0
5 Net Cost Of Operations	<u><u>(4,025)</u></u>

Additional information included in Note 16.

The accompanying notes are an integral part of these statements.

Department of Defense
Defense Working Capital Fund, Defense Finance and Accounting Service
CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION
For the period ending September 30, 1998
(\$ in Thousands)

	ISO
1 Net Cost of Operations	(4,025)
2 Financing Sources (Other than Exchange Revenues):	
A. Appropriations Used	0
B. Taxes (and Other Non-exchange Revenue)	0
C. Donations (Non-exchange Revenue)	0
D. Imputed Financing	0
E. Transfers-In	498
F. Transfers-Out	(1,499)
	<hr/>
3 Net Results of Operations (Line 2 less Line 1)	3,024
	<hr/>
4 Prior Period Adjustments (Note 18)	46
	<hr/>
5 Net Change in Cumulative Results of Operations	3,070
	<hr/>
6 Increase (Decrease) in Unexpended Appropriations	0
	<hr/>
7 Change in Net Position	3,070
	<hr/>
8 Net Position-Beginning of the Period	18,848
	<hr/>
9 Net Position-End of Period	21,918
	<hr/> <hr/>

Additional information included in Note 18.

The accompanying notes are an integral part of these statements.

Department of Defense
Defense Working Capital Fund, Defense Finance and Accounting Service
COMBINING STATEMENT OF BUDGETARY RESOURCES
For the period ending September 30, 1998
(\$ in Thousands)

BUDGETARY RESOURCES:	ISO
1 Budget Authority	1,412
2 Unobligated Balance - Beginning of Period	25,783
3 Net Transfers Prior-Year Balance, Actual (+/-)	0
4 Spending Authority from Offsetting Collections	229,008
5 Adjustments	0
6 Total Budgetary Resources	<u>256,203</u>
STATUS OF BUDGETARY RESOURCES:	
7 Obligations Incurred	205,091
8 Unobligated Balances - Available	51,112
9 Unobligated Balances - Not Available	0
10. Total, Status of Budgetary Resources	<u>256,203</u>
OUTLAYS:	
11. Obligations Incurred	205,092
12. Less: Spending Authority From Offsetting Collections and Adjustments	<u>(229,008)</u>
13. Obligated Balance, Net - Beginning of Period	(20,407)
14. Obligated Balance Transferred, Net	0
15. Less: Obligated Balance, Net - End of Period	45,034
16. Total Outlays	<u>711</u>

Additional information included in Note 19.

The accompanying notes are an integral part of these statements.

Department of Defense
Defense Working Capital Fund, Defense Finance and Accounting Service
COMBINING STATEMENT OF FINANCING
For the period ending September 30, 1998
(\$ in Thousands)

	ISO
1. OBLIGATIONS AND NONBUDGETARY RESOURCES:	
A. Obligations Incurred	205,092
B. Less: Spending Authority for Offsetting Collections and Adjustments	(229,008)
C. Donations Not in the Entity's Budget	0
D. Financing Imputed for Cost Subsidies	0
E. Transfers-In (Out)	(1,001)
F. Exchange Revenue Not in the Entity's Budget	0
G. Other	0
H. Total Obligations as Adjusted and Nonbudgetary Resources	(24,917)
2. RESOURCES THAT DO NOT FUND NET COST OF OPERATIONS:	
A. Change in Amount of Goods, Services, and Benefits Ordered but Not Yet Received or Provided	145
B. Costs Capitalized on the Balance Sheet	12,164
C. Financing Sources That Fund Costs of Prior Periods	(46)
D. Other	0
E. Total Resources That Do Not Fund Net Costs of Operations	12,263
3 COSTS THAT DO NOT REQUIRE RESOURCES:	
A. Depreciation and Amortization	8,609
B. Revaluation of Assets and Liabilities	0
C. Other	8
D. Total Costs That Do Not Require Resources	8,617
4 Financing Sources Yet to be Provided	12
5 Net Cost of Operations	(4,025)

Additional information included in Note 20.

The accompanying notes are an integral part of these statements.

Department of Defense
Defense Working Capital Fund, Defense Finance and Accounting Service
CONSOLIDATED BALANCE SHEET
As of September 30, 1998
(\$ in Thousands)

	<u>FY</u> <u>1998</u>
ASSETS	
1. Entity Assets:	
A. Intragovernmental	
1. Fund Balance With Treasury (Note 2)	\$(146,597)
2. Investments, Net (Note 4)	0
3. Accounts Receivable, Net (Note 5)	107,309
4. Other Assets (Note 6)	0
B. Total Intragovernmental	(\$39,288)
C. Investments, Net (Note 4)	0
D. Accounts Receivable, Net (Note 5)	87
E. Loans Receivables and Related Foreclosed Property, Net (Note 7)	0
F. Cash and Other Monetary Assets (Note 3)	0
G. Inventory and Related Property, Net (Note 8)	0
H. General Property, Plant and Equipment, Net (Note 9)	671,450
I. Stewardship Assets (National Defense PP&E, etc.)	N/A
J. Other Assets (Note 6)	34,156
K. Total Entity Assets	\$666,405
2. Non-Entity Assets:	
A. Intragovernmental	
1. Fund Balance With Treasury (Note 2)	0
2. Accounts Receivable, Net (Note 5)	0
3. Other Assets (Note 6)	0
B. Total Intragovernmental	\$0
C. Accounts Receivable, Net (Note 5)	
D. Cash and Other Monetary Assets (Note 3)	0
E. Other Assets (Note 6)	0
F. Total Non-Entity Assets	\$0
3. Total Assets	\$ 666,405

The accompanying notes are an integral part of these statements

Department of Defense
 Defense Working Capital Fund, Defense Finance and Accounting Service
 CONSOLIDATED BALANCE SHEET
 As of September 30, 1998
 (\$ in Thousands)

	<u>FY</u> <u>1998</u>
LIABILITIES	
4. Liabilities Covered by Budgetary Resources:	
A. Intragovernmental Liabilities:	
1. Accounts Payable	\$ 222,599
2. Environmental Cleanup (Note 11)	0
3. Debt (Note 10)	0
4. Other Liabilities (Note 11, 12 and 15)	0
B. Total Intragovernmental	\$ 222,599
C. Accounts Payable	145,545
D. Liabilities for Loan Guarantees	0
E. Military Retirement Benefits and Other Employment	
Post-Employment Benefits (Note 13) Related Actuarial Liabilities (Note 13)	0
F. Environmental Cleanup (Note 11)	
G. Other Liabilities (Notes 11, 12 and 15)	13,474
H. Total Liabilities Covered by Budgetary Resources	\$381,618
5. Liabilities not Covered by Budgetary Resources:	
A. Intragovernmental	
1. Accounts Payable	0
2. Debt (Note 10)	0
3. Environmental Cleanup (Note 11)	0
4. Other Liabilities (Notes 11, 12 and 15)	0
B. Total Intragovernmental	\$ 0
C. Accounts Payable	0
D. Debt (Note 10)	0
E. Military Retirement Benefits and Other Employment	0
Post-Employment Benefits (Note 13) Related Actuarial Liabilities (Note 13)	89,085
F. Environmental Cleanup (Note 11)	0
G. Other Liabilities (Notes 11, 12 and 15)	51,420
H. Total Liabilities not Covered by Budgetary Resources	\$ 140,505
6. Total Liabilities	522,123
NET POSITION	
7. Unexpended Appropriations (Note 14)	\$ 0
8. Cumulative Results of Operations	144,282
9. Total Net Position	\$144,282
10. Total Liabilities and Net Position	\$ 666,405

The accompanying notes are an integral part of these statements

Department of Defense
Defense Working Capital Fund, Defense Finance and Accounting Service
CONSOLIDATED STATEMENT OF NET COST
For the period ending September 30, 1998
(\$ in Thousands)

	<u>FY</u> <u>1998</u>
1. Program Costs	
A. Intragovernmental	\$ 992,512
B. With the Public	687,200
C. Total Program Cost	<u>\$1,679,712</u>
D. Less: Earned Revenues	<u>(1,594,072)</u>
E. Net Program Costs	<u>\$85,640</u>
2. Costs Not Assigned to Programs	0
3. Less: Earned Revenues Not Attributable to Programs	0
4. Deferred Maintenance (Note 17)	0
5. Net Cost Of Operations	<u><u>\$85,640</u></u>

Additional information included in Note 16.

The accompanying notes are an integral part of these statements.

Department of Defense
Defense Working Capital Fund, Defense Finance and Accounting Service
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
For the period ending September 30, 1998
(\$ in Thousands)

	<u>FY</u> <u>1998</u>
1. Net Cost of Operations	\$85,640
2. Financing Sources (Other than Exchange Revenues):	
A. Appropriations Used	0
B. Taxes (and Other Non-exchange Revenue)	0
C. Donations (Non-exchange Revenue)	0
D. Imputed Financing	61,695
E. Transfers-In	10,744
F. Transfers-Out	<u>(67,850)</u>
3. Net Results of Operations (Line 2 less Line 1)	<u>\$(81,051)</u>
4. Prior Period Adjustments (Note 18)	<u>87,026</u>
5. Net Change in Cumulative Results of Operations	5,975
6. Increase (Decrease) in Unexpended Appropriations	<u>0</u>
7. Change in Net Position	5,975
8. Net Position-Beginning of the Period	<u>138,307</u>
9. Net Position-End of Period	<u><u>\$ 144,282</u></u>

Additional information included in Note 18.

The accompanying notes are an integral part of these statements.

Department of Defense
Defense Working Capital Fund, Defense Finance and Accounting Service
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the period ending September 30, 1998
(\$inThousands)

FY
1998

BUDGETARY RESOURCES:

1.	Budget Authority	\$ 126,086
2.	Unobligated Balance - Beginning of Period	(3,843)
3.	Net Transfers Prior-Year Balance, Actual (+/-)	1,214
4.	Spending Authority from Offsetting Collections	1,792,473
5.	Adjustments	<u>0</u>
6.	Total Budgetary Resources	<u><u>\$ 1,915,930</u></u>

STATUS OF BUDGETARY RESOURCES:

7.	Obligations Incurred	1,784,489
8.	Unobligated Balances - Available	131,441
9.	Unobligated Balances - Not Available	<u>0</u>
10.	Total, Status of Budgetary Resources	<u><u>\$ 1,915,930</u></u>

OUTLAYS:

11.	Obligations Incurred	1,784,489
12.	Less: Spending Authority From Offsetting Collections and Adjustments	<u>(1,792,473)</u>
13.	Obligated Balance, Net - Beginning of Period	582,067
14.	Obligated Balance Transferred, Net	0
15.	Less: Obligated Balance, Net - End of Period	(428,700)
16.	Total Outlays	<u><u>\$ 145,383</u></u>

Additional information included in Note 19.

The accompanying notes are an integral part of these statements.

Department of Defense
 Defense Working Capital Fund, Defense Finance and Accounting Service
 COMBINED STATEMENT OF FINANCING
 For the period ending September 30, 1998
 (\$ in Thousands)

FY
1998

1. OBLIGATIONS AND NONBUDGETARY RESOURCES:	
A. Obligations Incurred	\$ 1,784,489
B. Less: Spending Authority for Offsetting Collections and Adjustments	(1,792,473)
C. Donations Not in the Entity's Budget	0
D. Financing Imputed for Cost Subsidies	61,695
E. Transfers-In (Out)	(57,106)
F. Exchange Revenue Not in the Entity's Budget	0
G. Other	0
H. Total Obligations as Adjusted and Nonbudgetary Resources	<u>0</u> <u>\$ (3,395)</u>
2. RESOURCES THAT DO NOT FUND NET COST OF OPERATIONS:	
A. Change in Amount of Goods, Services, and Benefits Ordered but Not Yet Received or Provided	(15,050)
B. Costs Capitalized on the Balance Sheet	(50,644)
C. Financing Sources That Fund Costs of Prior Periods	86,936
D. Other	0
E. Total Resources That Do Not Fund Net Costs of Operations	<u>0</u> <u>21,242</u>
3. COSTS THAT DO NOT REQUIRE RESOURCES:	
A. Depreciation and Amortization	178,080
B. Revaluation of Assets and Liabilities	0
C. Other	4,328
D. Total Costs That Do Not Require Resources	<u>182,408</u>
4. Financing Sources Yet to be Provided	<u>(114,615)</u>
5. Net Cost of Operations	<u>\$ 85,640</u>

Additional information included in Note 20.

The accompanying notes are an integral part of these statements.

Department of Defense
 Defense Working Capital Fund, Defense Finance and Accounting Service
 CONSOLIDATING BALANCE SHEET

As of September 30, 1998

(\$ in Thousands)

	Fin Oper	ISO	Intra-Agency Elimination's Adjustments	Consolidated Total
ASSETS				
1. Entity Assets:				
A. Intragovernmental				
1. Fund Balance With Treasury (Note 2)	(145,886)	(711)		(146,597)
2. Investments, Net (Note 4)	0	0		0
3. Accounts Receivable, Net (Note 5)	64,038	43,271		107,309
4. Other Assets (Note 6)	0	0		0
B. Total Intragovernmental	(81,848)	42,560	0	(39,288)
C. Investments (Note 4)	0	0		0
D. Accounts Receivable, Net (Note 5)	86	1		87
E. Loans Receivables and Related Foreclosed Property, Net (Note 7)	0	0		0
F. Cash and Other Monetary Assets (Note 3)	0	0		0
G. Inventory and Related Property, Net (Note 8)	0	0		0
H. General Property, Plant and Equipment, Net (Note 9)	650,596	20,854		671,450
I. Stewardship Assets (National Defense PP&E, etc.)	N/A	N/A		N/A
J. Other Assets (Note 6)	25,255	8,901		34,156
K. Total Entity Assets	594,089	72,316	0	666,405
2 Non-Entity Assets:				
A. Intragovernmental				
1. Fund Balance With Treasury (Note 2)	0	0		0
2. Accounts Receivable, Net (Note 5)	0	0		0
3. Other Assets (Note 6)	0	0		0
B. Total Intragovernmental	0	0	0	0
C. Accounts Receivable, Net (Note 5)				
D. Cash and Other Monetary Assets (Note 3)	0	0		0
E. Other Assets (Note 6)	0	0		0
F. Total Non-Entity Assets	0	0	0	0
3 Total Assets	594,089	72,316	0	666,405

The accompanying notes are an integral part of these statements

Department of Defense
Defense Working Capital Fund, Defense Finance and Accounting Services
CONSOLIDATING BALANCE SHEET
As of September 30, 1998
(\$ in Thousands)

	Fin Oper	ISO	Elimination's	Adjustments	Consolidated Total
LIABILITIES					
4 Liabilities Covered by Budgetary Resources:					
A. Intragovernmental:					
1. Accounts Payable	201,580	21,019	0		222,599
2. Environmental Cleanup (Note 11)	0	0			0
3. Debt (Note 10)	0	0			0
4. Other Liabilities (Note 11, 12, and 15)	0	0			0
B. Total Intragovernmental	201,580	21,019	0		222,599
C. Accounts Payable	123,646	21,899			145,545
D. Liabilities for Loan Guarantees	0	0			0
E. Military Retirement Benefits and Other Employment Post-Employment Benefits (Note 13) Related Actuarial Liabilities (Note 13)	0	0			0
F. Environmental Cleanup (Note 11)					
G. Other Liabilities (Notes 11, 12 and 15)	12,078	1,396			13,474
H. Total Liabilities Covered by Budgetary Resources	337,304	44,314	0		381,618
5 Liabilities Not Covered by Budgetary Resources:					
A. Intragovernmental:					
1. Accounts Payable	0	0			0
2. Debt (Note 10)	0	0			0
3. Environmental Cleanup (Note 11)	0	0			0
4. Other Liabilities (Notes 11,12 and 15)	0	0			0
B. Total Intragovernmental	0	0	0		0
C. Accounts Payable	0	0			0
D. Debt (Note 10)	0	0			0
E. Military Retirement Benefits and Other Employment Post-Employment Benefits (Note 13) Related Actuarial Liabilities (Note 13)	0	0		89,085	89,085
F. Environmental Cleanup (Note 11)	0				0
G. Other Liabilities (Notes 11, 12 and 15)	45,336	6,084			51,420
H. Total Liabilities not Covered by Budgetary Resources	45,336	6,084	0	89,085	140,505
6 Total Liabilities	382,640	50,398	0	89,085	522,123
NET POSITION					
7 Unexpended Appropriations (Note 14)	0	0			0
8 Cumulative Results of Operations	211,449	21,918		(89,085)	144,282
9 Total Net Position	211,449	21,918	0	(89,085)	144,282
10 Total Liabilities and Net Position	594,089	72,316	0	0	666,405

The accompanying notes are an integral part of these statements

Department of Defense
Defense Working Capital Fund, Defense Finance and Accounting Service
CONSOLIDATING STATEMENT OF NET COST
For the period ending September 30, 1998
(\$ in Thousands)

	Fin Oper	ISO	Elimination's	Adjustments	Consolidated Total
1 Program Costs					
A. Intragovernmental	985,188	124,481	(178,852)	61,695	992,512
B. With the Public	600,681	80,419		6,100	687,200
C. Total Program Cost	1,585,869	204,900	(178,852)	67,795	1,679,712
D. Less: Earned Revenues	(1,563,999)	(208,925)	178,852		(1,594,072)
E. Net Program Costs	21,870	(4,025)	0	67,795	85,640
2 Costs Not Assigned to Programs	0	0			0
3 Less: Earned Revenues Not Attributable to Programs	0	0			0
4 Deferred Maintenance (Note 17)	0	0			0
5 Net Cost Of Operations	21,870	(4,025)	0	67,795	85,640

Additional information included in Note 16.

The accompanying notes are an integral part of these statements.

Department of Defense
 Defense Working Capital Fund, Defense Finance and Accounting Service
CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION
 For the period ending September 30, 1998
 (\$ in Thousands)

	Fin Oper	ISO	Elimination's	Adjustments	Consolidated Total
1 Net Cost of Operations	21,870	(4,025)	0	67,795	85,640
2 Financing Sources (Other than Exchange Revenues):					
A. Appropriations Used	0	0			0
B. Taxes (and Other Non-exchange Revenue)	0	0			0
C. Donations (Non-exchange Revenue)	0	0			0
D. Imputed Financing	0	0		61,695	61,695
E. Transfers-In	10,246	498			10,744
F. Transfers-Out	(66,351)	(1,499)			(67,850)
3 Net Results of Operations (Line 2 less Line 1)	(77,975)	3,024	0	(6,100)	(81,051)
4 Prior Period Adjustments (Note 18)	86,980	46			87,026
5 Net Change in Cumulative Results of Operations	9,005	3,070	0	(6,100)	5,975
6 Increase (Decrease) in Unexpended Appropriations	0	0			0
7 Change in Net Position	9,005	3,070	0	(6,100)	5,975
8 Net Position-Beginning of the Period	202,444	18,848		(82,985)	138,307
9 Net Position-End of Period	211,448	21,918	0	(89,085)	144,282

Additional information included in Note 18.

The accompanying notes are an integral part of these statements.

Department of Defense
Defense Working Capital Fund, Defense Finance and Accounting Service
COMBINING STATEMENT OF BUDGETARY RESOURCES
For the period ending September 30, 1998
(\$ in Thousands)

BUDGETARY RESOURCES:	Fin Oper	ISO	Elimination's	Adjustments	Consolidated Total
1 Budget Authority	124,674	1,412			126,086
2 Unobligated Balance - Beginning of Period	(29,626)	25,783			(3,843)
3 Net Transfers Prior-Year Balance, Actual (+/-)	1,214	0			1,214
4 Spending Authority from Offsetting Collections	1,563,465	229,008			1,792,473
5 Adjustments	0	0			0
6 Total Budgetary Resources	<u>1,659,727</u>	<u>256,203</u>	<u>0</u>		<u>1,915,930</u>
STATUS OF BUDGETARY RESOURCES:					
7 Obligations Incurred	1,579,398	205,091			1,784,489
8 Unobligated Balances - Available	80,329	51,112			131,441
9 Unobligated Balances - Not Available	0	0			0
10. Total, Status of Budgetary Resources	<u>1,659,727</u>	<u>256,203</u>	<u>0</u>		<u>1,915,930</u>
OUTLAYS:					
11. Obligations Incurred	1,579,398	205,091			1,784,489
12. Less: Spending Authority From Offsetting Collections and Adjustments	<u>(1,563,465)</u>	<u>(229,008)</u>			<u>(1,792,473)</u>
13. Obligated Balance, Net - Beginning of Period	602,473	(20,406)			582,067
14. Obligated Balance Transferred, Net	0	0			0
15. Less: Obligated Balance, Net - End of Period	(473,734)	45,034			(428,700)
16. Total Outlays	<u>144,672</u>	<u>711</u>	<u>0</u>		<u>145,383</u>

Additional information included in Note 19.

The accompanying notes are an integral part of these statements.

Department of Defense
Defense Working Capital Fund, Defense Finance and Accounting Service
COMBINING STATEMENT OF FINANCING
For the period ending September 30, 1998
(\$ in Thousands)

	Fin Oper	ISO	Elimination's	Adjustments	Consolidated Total
1. OBLIGATIONS AND NONBUDGETARY RESOURCES:					
A. Obligations Incurred	1,579,398	205,091			1,784,489
B. Less: Spending Authority for Offsetting Collections and Adjustments	(1,563,465)	(229,008)			(1,792,473)
C. Donations Not in the Entity's Budget	0	0			0
D. Financing Imputed for Cost Subsidies	0	0	0	61,695	61,695
E. Transfers-In (Out)	(56,105)	(1,001)			(57,106)
F. Exchange Revenue Not in the Entity's Budget	0	0			0
G. Other	0	0			0
H. Total Obligations as Adjusted and Nonbudgetary Resources	(40,172)	(24,917)	0	61,695	(3,395)
2. RESOURCES THAT DO NOT FUND NET COST OF OPERATIONS:					
A. Change in Amount of Goods, Services, and Benefits Ordered but Not Yet Received or Provided	(15,195)	145			(15,050)
B. Costs Capitalized on the Balance Sheet	(62,808)	12,164			(50,644)
C. Financing Sources That Fund Costs of Prior Periods	86,981	(46)			86,936
D. Other	0	0	0	0	0
E. Total Resources That Do Not Fund Net Costs of Operations	8,978	12,263	0	0	21,242
3 COSTS THAT DO NOT REQUIRE RESOURCES:					
A. Depreciation and Amortization	169,471	8,609			178,080
B. Revaluation of Assets and Liabilities	0	0			0
C. Other	4,320	8			4,328
D. Total Costs That Do Not Require Resources	173,791	8,617	0	0	182,408
4 Financing Sources Yet to be Provided	(120,727)	12		6,100	(114,615)
5 Net Cost of Operations	21,870	(4,025)	0	67,795	85,640

Additional information included in Note 20.

The accompanying notes are an integral part of these statements.

***DEFENSE FINANCE
AND
ACCOUNTING SERVICE***

***WORKING CAPITAL
FUND***

***FOOTNOTES
TO THE
OPERATIONS
PRINCIPAL STATEMENTS***

**DEFENSE FINANCE AND ACCOUNTING SERVICE
DEFENSE WORKING CAPITAL FUND
CONSOLIDATED OPERATIONS
NOTES TO THE PRINCIPAL STATEMENTS
AS OF SEPTEMBER 30, 1998**

Note 1. Significant Accounting Policies:

A. Basis of Presentation.

These financial statements have been prepared to report the financial position and results of operations of the Defense Finance and Accounting Service (DFAS), as required by the Chief Financial Officers (CFO) Act of 1990 expanded by the Government Management Reform Act (GMRA) of 1994, and other appropriate legislation. The report has also been prepared to provide information with which Congress, agency managers, the public, and other interested parties can assess management performance and stewardship. The financial statements have been prepared from the books and records of the Defense Finance and Service (DFAS) in accordance with "Department of Defense Financial Management Regulation" "DoDFMR" Volume 6B, as adopted from Office of Management and Budget (OMB) Bulletin No. 97-01, "Form and Content of Agency Financial Statements." These statements, therefore, are different from the financial reports, also prepared by the DoD pursuant to OMB directives that are used to monitor and control DoD's use of budgetary resources.

B. Reporting Entity.

1. The accounts used to prepare the statements are classified as entity/nonentity. Entity accounts consist of resources that the agency has the authority to decide how to use, or where management is legally obligated to use funds to meet entity obligations. Non-entity accounts are assets that are held by an entity but are not available for use in operations.

2. The accompanying audited financial statements account for all resources for which the DFAS is responsible except that information relative to classified assets, programs, and operations has been excluded from the statement or otherwise aggregated and reported in such a manner that it is no longer classified. The audited financial statements are presented on the accrual basis of accounting as required by DoD accounting policies.

C. Budgets and Budgetary Accounting.

1. The Department of Defense expanded the use of businesslike financial management practices through the establishment of the Defense Business Operations Fund

(DBOF) on October 1, 1991. On December 11, 1996, the DBOF became the Defense Working Capital Funds (DWCFs). The DWCF operate with financial principles that provide improved cost visibility and accountability to enhance business management and improve the decision making process. The DWCF build on revolving fund principles previously used for industrial and commercial-type activities. The Department of Defense Working Capital Funds includes industrial and commercial type transactions. These activities provide supplies and inventories to Department organizations on a commercial basis. Receipts derived from resale operations are normally available in their entirety for use without further congressional action.

D. Basis of Accounting. Transactions are generally recorded on an accrual accounting basis and a budgetary basis. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting is accomplished through unique general ledger accounts to facilitate compliance with legal and internal control requirements associated with the use of federal funds. All known intrafund balances have been eliminated and have been identified in Note 22.

E. Revenues and Other Financing Sources. Revenue is recognized at the point the rendered service is completed and billed or at the point inventory items are sold.

1. For financial reporting purposes under accrual accounting, operating expenses for general fund activities are recognized in the period incurred. Expenditures for capital and other long-term assets are not recognized as expenses until consumed in the Department's operations. Unexpended appropriations are recorded as equity of the U.S. Government.

2. Certain expenses, such as annual and military leave earned but not taken, are not funded when accrued. Such expenses are financed in the period in which payment is required.

F. Accounting for Intragovernmental Activities.

1. The Department's civilian employees participate in the Civil Service Retirement System (CSRS) and Federal Employees Retirement System (FERS), while military personnel are covered by the Military Retirement System (MRS). Additionally, employees and personnel covered by FERS and MRS also have varying coverage under Social Security. The Department funds a portion of the civilian and military pensions. Reporting civilian pension benefits under CSRS and FERS retirement systems is the responsibility of the Office of Personnel Management (OPM). The Department recognizes an imputed expense for civilian employee pensions and other retirement benefits in the statement of net cost; and recognizes imputed revenue for the civilian employee pensions and other retirement benefits in the statement of changes in net position. The Department reports the assets, funded actuarial liability, and unfunded actuarial liability for the military personnel in the Military Retirement Trust Fund financial statements report. The Department recognizes the actuarial liability for the military retirement health benefits in the DoD Agency-wide statements.

2. Most legal actions, other than contract claims, to which the Department may be a named party are covered by the provisions of the Federal Tort Claims Act and the provisions of Title 10, United States Code, Chapter 163, governing military claims. Either because payments under these statutes are limited to, amounts well below the threshold of materiality for claims payable from the Department's appropriations or because payments will be from the permanent, indefinite appropriation "Claims, Judgments, and Relief Acts" (the Judgment Fund), these legal actions should not materially affect the Department's operations or financial condition.

G. Funds with the U.S. Treasury and Cash. The Department's fund resources are maintained in U.S. Treasury accounts. Its cash receipts and disbursements are processed by the Treasury Department, and the balance with the U.S. Treasury represents the aggregate of all unexpended balances.

H. Foreign Currency.

Not Applicable

I. Accounts Receivable. As presented in the balance sheet statement, accounts receivable includes accounts and claims receivable from other entities. Allowances for uncollectable accounts are based upon analysis of collection experience by fund type. Material disclosures are provided at Note 5.

J. Loans Receivable.

Not Applicable

K. Inventories and Related Property.

Not Applicable

L. Investments in U.S. Government Securities.

Not Applicable

M. General Property, Plant and Equipment (PP&E):

1. General PP&E is valued at historical acquisition cost plus capitalized renovations or improvements. General PP&E assets are capitalized when the cost equals or exceeds the DoD capitalization threshold (currently \$100,000) and have a useful life of two or more years. All General PP&E other than land, is depreciated consistent with the requirements in the Federal Accounting Standards Advisory Board Statement of Federal Financial Accounting Standards No. 6, "Accounting for Property, Plant and Equipment." Depreciation is a new requirement for General Fund Activities in FY 1998. Depreciation of property and equipment is generally calculated on a straight line basis.

2. In some instances, equipment may be valued at latest acquisition cost. In other instances where original acquisition costs of General PP&E were not available, estimates have been used. Such estimates are based on either (1) the cost of similar assets at the time of acquisition or (2) the current cost of similar assets discounted for inflation to the time of acquisition.

3. For entities operating as business-type activities (working capital funds (WCF)), all PP&E is categorized as General PP&E, whether or not it meets the definition of a Stewardship Asset. Prior to FY 1996, General PP&E with an acquisition cost of \$15,000, \$25,000, and \$50,000 for FY 1993, FY 1994, and FY 1995, respectively, and an estimated useful life of two years or more was capitalized, remains capitalized for the WCF activities.

N. Prepaid and Deferred Charges.

Not Applicable

O. Leases.

Not Applicable

P. Contingencies.

Not Applicable

Q. Accrued Leave. Civilian annual leave and military leave are accrued as earned and the accrued amounts are reduced as leave is taken. The balances for annual civilian and military leave at the end of the fiscal year reflect current pay rates for the leave that is earned but not taken. Sick and other types of nonvested leave are expensed as taken. Annual leave is accrued as it is earned and the accrual is reduced as leave is taken. Each year, the balance in the accrued annual leave account is adjusted to reflect current pay rates. To the extent appropriations are not available to fund annual leave earned but not taken, funding will be obtained from future financing sources.

R. Equity.

1. Equity consists of unexpended appropriations and cumulative result of operations. Unexpended appropriations represent amounts of authority which are unobligated and have not been rescinded or withdrawn, and amounts obligated but for which neither legal liabilities for payments have been incurred nor actual payments made.

2. Cumulative results of operations represents the difference since inception of the activity between expenses and losses, and financing sources including appropriations, revenue, and gains. Beginning in FY 1998, this will include the cumulative amount of donations and transfers of assets in and out without reimbursement. In addition, there will no longer be a segregation of cumulative amounts related to investments in capitalized assets, such as PP&E, or

pre-credit reform loans, or a separate negative amount shown for future funding requirements. Cumulative results of operations for working capital funds represents the excess of revenues over expenses since fund inception, less refunds to customers and returns to the U.S. Treasury.

S. Treaties for Use of Foreign Bases.

Not Applicable

T. Comparative Data

Not Applicable

U. Undelivered Orders. The DFAS is obligated for goods and services which have been ordered but not yet received (undelivered orders) as of September 30, 1998. The DFAS has Undelivered Orders of \$254,035 thousands.

Note 2. Fund Balances with Treasury:

A. Entity Fund and Account Balances

	Revolving Funds
Unobligated Balance Available:	
Available	0.00
Restricted	0.00
Reserve for Anticipated Resources	0.00
Obligated Balance, Net	0.00
Unfunded Contract Authority	0.00
Unused Borrowing Authority	0.00
Total Entity Treasury Balance	0.00

The value on Line 1A1 consists of FY 1998 collections, disbursements and cash transfers for the Defense Finance and Accounting Service.

B. Non-Entity Fund and Account Balance \$0.00

C. The Defense Logistics Agency, as the cash manager for the Defense Agencies subnumbered Defense Working Capital Funds cash account has not allocated budgetary cash. Due to the fact that budgetary cash has not been allocated to the Defense Finance and Account Service level, Note 2A and 2B are not applicable.

Note 3. Cash, and Other Monetary Assets:

Not Applicable

Note 4. Investments, Net :

Not Applicable

<u>Note 5. Accounts Receivable, Net :</u>	(1)	(2)	(3)
	<u>Gross Amount Due</u>	<u>Allowance for Estimated Uncollectables</u>	<u>Net Amount Due</u>
A. Entity Receivables:			
Intragovernmental	\$ 107,309		\$ 107,309
With the Public	91	4	87
Total	\$107,400	\$4	\$107,396
B. Non-Entity Receivables:			
Intragovernmental	0	0	0
With the Public	\$ 0	\$ 0	\$ 0

C. Allowance Method Used: Allowances for uncollectable accounts are based upon analysis of collection experience by fund type.

D. Other Information:

1. Accounts Receivable Intragovernmental was adjusted by (\$1,878) thousands due to undistributed collections. The allowance for Accounts Receivables is for Refunds Receivable.

2. No eliminations occurred between Financial Operations and Infrastructure Systems Organization for Accounts Receivable.

Note 6. Other Assets :

A. Other Entity Assets	
1. Intragovernmental	
(a) Assets Returned for Credit	\$ 0
(b) Other	0
Total Intragovernmental	\$ 0
2. Other	
(a) Travel Advances	\$ 334
(b) Equipment Not in Use	33,822
Total Other	\$ 34,156
B. Other Information related to entity assets.	
C. Other Non-entity Assets	
1. Intragovernmental	
(a)	\$ 0
Total Intragovernmental	\$ 0
2. Other	
(a)	\$ 0
Total Other	\$ 0
D. Other Information related to non-entity assets.	

Note 7. Direct Loans and Loan Guarantees, Non-Federal Borrowers:

Not Applicable

Note 8. Inventory and Related Property:

Not Applicable

Note 9. General Property, Plant, and Equipment (PP&E), Net:

	(1)	(2)	(3)	(4)	(5)
	<u>Depreciation Method</u>	<u>Service Life</u>	<u>Acquisition Value</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Major Classes of Assets					
A. Land	N/A	N/A	\$ 0	N/A	\$ 0
B. Structures, Facilities, and Leasehold Improvements	SL	20-40	7,903	\$4,233	3,670
C. ADP Software	SL	1-5	934,022	538,417	395,605
D. Equipment	SL	5-10	203,705	120,679	83,026
E. Assets Under Capital Lease			0	0	0
F. Construction-in-Progress			187,569	N/A	187,569
G. Other			25,560	23,980	1,580
Total			<u>\$1,358,760</u>	<u>\$687,309</u>	<u>\$671,450</u>
H. Other Information: Defense Finance and Accounting Services does not have any National Defense PP&E, Heritage Assets, or Stewardship Land					
Legend: SL = Straight Line					

Note 10. Debt:

Not Applicable

Note 11. Other Liabilities:

Note 11A. ENVIRONMENTAL CLEANUP

Not applicable.

Note 11.B. OTHER LIABILITIES:			
1. Other Liabilities Covered by Budgetary Resources:			
	Noncurrent Liability	Current Liability	Total
(a) Intragovernmental			
(1) Advances from Others	\$ 0	\$ 0	\$ 0
(2) Contingent Liabilities	0	0	0
(3) Deferred Credits	0	0	0
(4) Deposit Funds and Suspense Account Liabilities	0	0	0
(5) Liability for Borrowings to be Received	0	0	0
(6) Liability for Subsidy Related to Undisbursed Loans	0	0	0
(7) Other Liabilities	0	0	0
(8) Resources Payable to Treasury	0	0	0
Total	\$ 0	\$ 0	\$ 0
(b). With the Public			
(1) Accrued Funded Payroll and Benefits	0	12,817	12,817
(2) Advances from Others	0	0	0
(3) Contingent Liabilities	0	0	0
(4) Deferred Credits	0	0	0
(5) Deposit Funds and Suspense Accounts	0	0	0
(6) Other Liabilities	0	657	657
Total	\$ 0	\$13,474	\$13,474
2. Other Liabilities Not Covered by Budgetary Resources:			
(a) Intragovernmental			
(1) Accrued Annual Leave	0	0	0
(2) Futures Workers	0	0	0
Total	\$0	\$0	\$0
(b) Public			
(1) Accrued Annual Leave	0	51,420	51,420
Total	\$0	\$51,420	\$51,420

Note 12. Leases:

Not Applicable

Note 13. Pensions and Other Actuarial Liabilities:

<u>Major Program Activities</u>	<u>(1)</u> <u>Actuarial</u> <u>Present</u> <u>Value of</u> <u>Projected Plan</u> <u>Benefits</u>	<u>(2)</u> <u>Assumed</u> <u>Interest</u> <u>Rate (%)</u>	<u>(3)</u> <u>Assets</u> <u>Available to</u> <u>Pay Benefits</u>	<u>(4)</u> <u>Unfunded</u> <u>Actuarial</u> <u>Liability</u>
A. Pension and Health Benefits: 1. Military Retirement Pensions 2. Military Retirement Health Benefits				
B. Insurance/Annuity Programs 1. Group Life Insurance				
C. Other 1. Workers Compensation Benefits	\$89,085			\$89,085
D. Total Lines A+B+C:	\$89,085			\$89,085
E. Other Information				

Note 14. Unexpended Appropriations:

Not Applicable

Note 15. Contingencies:

Not Applicable

Note 16. Footnote Disclosures Related to the Statement of Net Cost:

On the Statement of Net Cost, Line 5, Net Cost of Operations, there is a \$3,507 thousands difference between what is reported on the Accounting Report (AR1307) and what is reported on the CFO Statement. This difference is due to the change in Accrued Annual Leave for Fiscal Year 1998.

A. Suborganization Program Costs

Not applicable

B. Cost of National Defense PP&E

Not applicable

C. Cost of Stewardship Assets

Not applicable

D. Stewardship Assets Transferred

Not applicable

E. Exchange Revenue

Revenue for business fund activities is recognized at the point the rendered service is completed and billed or at the point inventory items are sold.

F. Revenue and Expense Amounts for Military Foreign Sales (FMS) Program

Procurements from Contractors

Not applicable

G. Benefit Program Expenses as of September 30, 1998

Not applicable

H. Gross Cost and Earned Revenue by Budget Functional Classification

	<u>Budget Function Code</u>	<u>Gross Cost</u>	<u>Earned Revenue</u>	<u>Net Cost</u>
A. Department of Defense	051	\$1,679,712	\$1,594,072	\$85,640
B. Water Resources by US Army Corps of Engineers	301			
C. Pollution Control and Abatement by US Army Corps of Engineers	304			
D. Federal Employee Retirement and Disability by Department of Defense Military Retirement Trust Fund	602			
E. Veterans Education, Training, And Rehabilitation by Department of Defense Education Benefits Trust Fund	702			

I. Other:

The DWCF Departmental level CFO statements have recognized an imputed expense for civilian employee pensions in the Statement of Net Cost and have recognized imputed revenue for the civilian employee pensions in the Statement of Changes in Net Position. Imputed pensions revenue is displayed on Line 2.D, Imputed Financing, of the Statement of Changes in Net Position. Also see Notes 1.C and 16 .H. Imputed Pensions were computed by DFAS as follows:

CSRS/FERS Retirement	\$25,786
Health	35,793
Life Insurance	<u>116</u>
Total	\$61,695

Note 17. Deferred Maintenance on Property, Plant and Equipment
 Not Applicable

Note 18. Prior Period Adjustments:

A. Prior Period Adjustments:		
1. Changes in Accounting Standards		\$ 0
2. Errors and Omission in Prior Year Accounting Records		107,837
3. Error in Prior Year Recording of Annual Leave		(2,477)
4. Prior Year Transfers In Conversion Correction		(18,334)
Total		<u>\$ 87,026</u>
<p>Other Information:</p> <p>1. An accounts payable of \$101,365 thousands was erroneously established in FY1994. An adjustment was made in FY1998 to correct this error. Duplicate Capital Assets of \$2,690 thousands were corrected. An adjustment was made to the accounting records for \$1,398 thousands to move Accrued Annual Leave to prior years. Also, a prior period adjustment was made for \$943 thousands which was related to an uncashed check that was received in FY1998 but should have been received in FY1997. \$1,441 thousands was attributed to prior year expenses made during the current fiscal year.</p> <p>2. The reporting of Annual Leave in prior year statements were misstated by \$2,477 thousands. For reporting purposes only, a journal voucher was prepared for this adjustment.</p> <p>3. During a conversion process in prior years, capital dollars were Transferred-In due to system limitations. These dollars should not have been Transferred In and therefore were removed from the Transferred-In General Ledger Account Code (GLAC) during the current year. Additional system limitations caused the correction to appear in the current year Transferred-In GLAC, however, the dollars were properly reflected on the CFO report as a Prior Year Adjustment.</p>		

Note 18B. Other Disclosures to the Statement of Changes in Net Position:

The DWCF Departmental level CFO statements have recognized an imputed expense for civilian employee pensions in the Statement of Net Cost and have recognized imputed revenue for the civilian employee pensions in the Statement of Changes in Net Position. Imputed pensions revenue is displayed on Line 2.D, Imputed Financing, of the Statement of Changes in Net Position. Also see Notes 1.C and 16 .H. Imputed Pensions were computed by DFAS as follows:

CSRS/FERS Retirement	\$25,786
Health	35,793
Life Insurance	<u>116</u>
Total	\$61,695

<u>Note 19. Disclosures Related to the Statement of Budgetary Resources:</u>	
1. Net amount of Budgetary Resources Obligated for Undelivered Orders at the End of Period	\$254,035
2. Available Borrowing and Contract Authority at the End of Period	656,527
3. The statement does not include any amounts for which The Department of the Treasury is willing to accept corrections to cancelled appropriation accounts, in accordance with SFFAS Number 1	
4. Other Information: The Statement of Budgetary Resources Lines 15 – Obligated Balance and Line 16 – Total Outlays differ from what is reported on the Report on Budget Execution (SF133) by \$1,214 thousands. This amount represents what was Transferred into DFAS during Fiscal Year 1998.	

Note 20. Disclosures Related to the Statement of Financing
Not Applicable.

Note 21. Disclosures Related to the Statement of Custodial Activity:
Not Applicable

Note 22. Inter-Agency Eliminations:

Statement		Balance Sheet	Net Cost	Balance Sheet
Level 1 Schedule, Part A. – Government-wide, Seller Activity	Treasury Index or Appropriation	Accounts Receivable by DoD Entity:	Revenue by DoD Entity:	Unearned Revenue by DoD Entity:
Defense Finance and Accounting Service, WCF	97X4930.05xx	\$ 5,001	\$ 407	\$0.00
Total		\$ 5,001	\$ 407	\$ 0.00

Part B. Department of Defense Eliminations of Seller Activity With Other Federal Agencies Arrayed by Other Federal Agencies	Treasury Index	DoD Accounts Receivable Arrayed by Customer:	DoD Revenue Arrayed by Customer:	DoD Unearned Revenue by Customer:
Executive Office of the President, Defense Security Assistance Agency	11			
Department of Agriculture	12			
Department of Commerce	13			
Department of the Interior	14			
Department of Justice	15			
Department of Labor	16			
Department of State	19			
Department of the Treasury	20			
Office of Personnel Management	24			
Nuclear Regulatory Commission	31			
Department of Veterans Affairs	36			
General Service Administration	47	98	150	
National Science Foundation	49			
Federal Emergency Management Agency	58			
Environmental Protection Agency	68	1	1	
Department of Transportation	69	52	80	
Agency for International Development	72			
Small Business Administration	73			
Department of Health and Human Services	75			
National Aeronautics and Space Administration	80			
Department of Housing & Urban Development	86			
Department of Energy	89			
Department of Education	91			
Social Security Administration	28			
Unidentifiable Federal Agency Entity	00	4,734		
Miscellaneous Identifiable Federal Agencies Not Required to Prepare CFO Audited Financial Statements	00	116	177	
Total		\$ 5,001	\$ 408	\$ 0.00

Note 23. Other Disclosures:
Not Applicable

***DEFENSE FINANCE
AND
ACCOUNTING SERVICE***

***WORKING CAPITAL
FUND***

***SUPPLEMENTAL FINANCIAL
AND MANAGEMENT
INFORMATION***

Program Performance Measures

Financial Attributes

Operating Costs Attributes (In Millions of Dollars)

	FY 1998
Total Costs and Expenses	\$192.4
Revenues and Reimbursements	177.2
Net Operating Costs	\$1.5
Percentage of Revenue	.9%

Operating Costs Attributes (In Millions of Dollars)

	FY 1998
Revenues	
Federal Sources	\$1.77
Public Sources	
Other	0
Total Revenue	\$1.77
Expenses and Losses	\$1.92
Net Operating Income (Deficit)	(\$0.15)
Additional Appropriations	0
Operating Surplus (Deficit)	(\$0.15)

Financial Condition Attribute
(In Thousands of Dollars)

	FY 1998
Available Sources of Cash	66,288.0
Future Requirements for Cash 51,857.0	
Cash Surplus (Shortfall)	
Total Assets	66,288.0
Total Liabilities	51,857.0
Asset to Debt Ratio	1:.78

Performance Measures Indicators FY 98

On August 1, 1995, the Director of DFAS approved 36 significant Performance Measures / Indicators (PMI) which serve as a repository for information that can be reported externally, when needed, or utilized by various levels of the organization to determine how effectively DFAS satisfies its operational requirements. The accumulation of data has provided to be an excellent management tool in the decision making process. The following two PMIs: Negative Unliquidated Obligations (NULO); and Cross Disbursements; have been tracked to provide an insight as to how well DFAS has performed. The following graphs provide a graphic picture of DFAS' favorable performance during FY 1998:

DFAS NULOs By Center And Age As of September 30, 1998

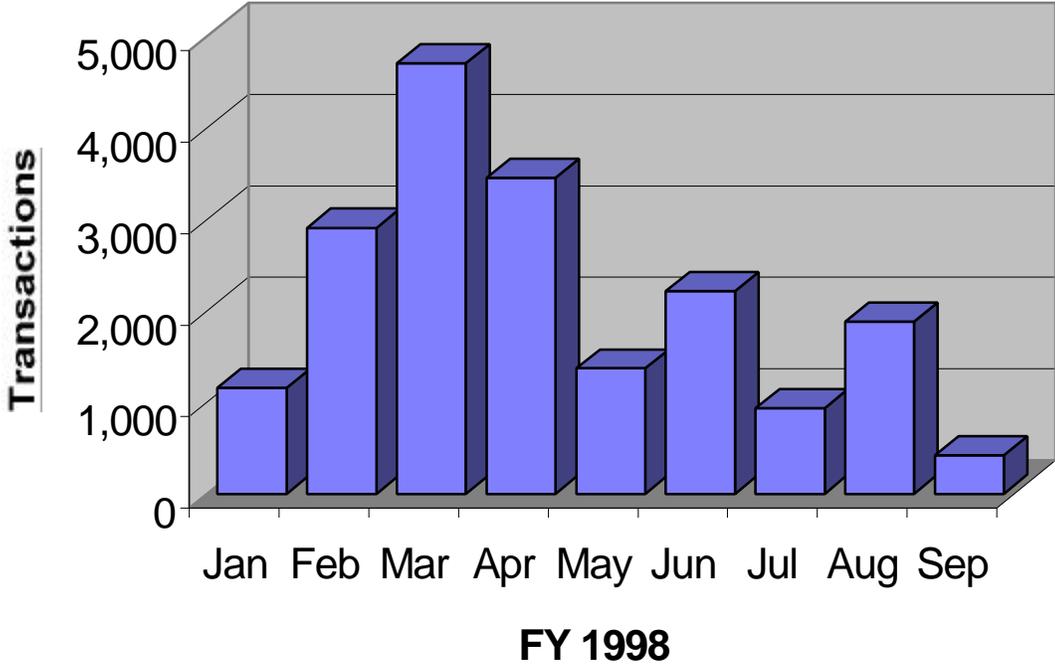
CENTER	0-30 Days	31-60 Days	61-90 Days	91-120 Days	Over 120 Days	Total Net NULO
Cleveland	\$68,096.00	\$0.00	\$0.00	\$0.00	\$0.00	\$68,096.00
Columbus	\$11,485.84	\$0.00	\$0.00	\$0.00	\$0.00	\$11,485.84
Denver	\$60,103.70	\$0.00	\$0.00	\$0.00	\$0.00	\$60,103.70
Headquarters	\$0.00	\$0.01	\$0.00	\$0.00	\$0.00	\$0.01
Indianapolis	\$29,424.10	\$30,404.54	\$48,611.37	\$0.00	\$0.00	\$108,440.01
Kansas City	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Pensacola	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Total DFAS	\$169,109.64	\$30,404.55	\$48,611.37	\$0.00	\$0.00	\$248,125.56

Cross Disbursements Center Summary As of September 30, 1998

DFAS Center

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
DFAS-FSO	157	158	259	262	137	133	160	110	54
DFAS-HQ	100	115	348	239	122	181	117	156	91
DFAS-DE	212	831	1,311	882	234	471	118	503	44
DFAS-IN	288	353	1,056	887	496	546	248	494	127
DFAS-CL	334	1,267	1,511	1,071	316	805	263	559	81
DFAS-CO	52	157	197	70	43	71	24	55	11
DFAS-KC	12	26	26	43	23	10	7	5	11
Total	1,155	2,907	4,708	3,454	1,371	2,217	937	1,882	419

DFAS Cross Disbursements As of 30 September 1998



***DEFENSE FINANCE
AND
ACCOUNTING SERVICE***

***WORKING CAPITAL
FUND***

AUDIT OPINION

